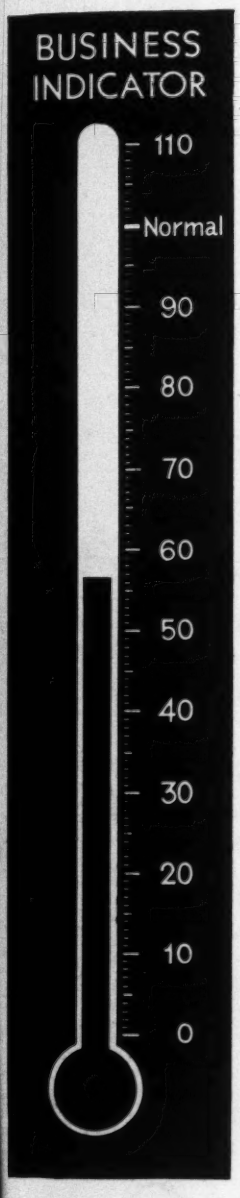
JUN 6 1932

JUNE 8, 1932

THE BUSINESS WEEK:



The general level of production and trade, such as it is, has not shown any marked change in the past three months, after allowing for usual seasonal factors . . . . A similar stability during the spring period was evident in the two preceding years; but business was then at a much higher level, and the possibilities of further decline from the present position would seem to be considerably smaller . . . . Commodity prices are still falling, but more slowly and with some scattered signs of stabilization in specific instances . . . . Security markets, still ruled by panic psychology, have not yet reflected these symptoms, but they rarely do promptly . . . . Financial sentiment has been somewhat steadied by speedier congressional action on fiscal issues, but is nervous about prospective European political developments . . . . Although Federal Reserve efforts to stimulate speedy credit expansion have been ineffective and are marking time, improvement in the banking position continues steadily as short-term funds pile up in money centers pending return of investment confidence . . . . No one can say what additional jolts to business and financial sentiment the merry month of June may hold in store at home or overseas, but the jittering capacity of the public would seem to be approaching exhaustion, and a cyclical return of common sense is about due to set in as soon as Congress adjourns and the political pandemonium of the campaign is past.

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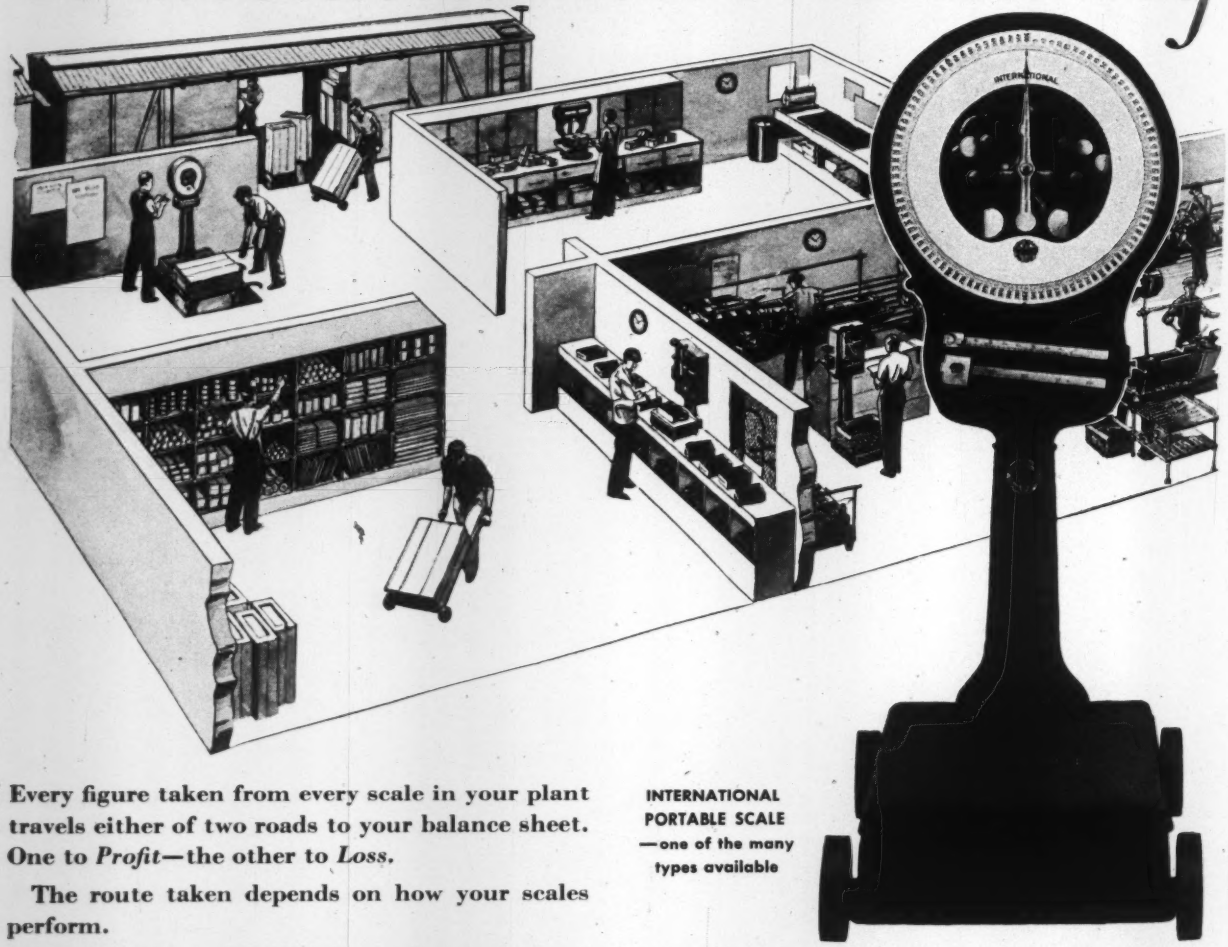

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THE BUSINESS WEEK (with which is combined The Magazine of Business) June 8, 1932. No. 144. Published weekly by McGraw-Hill Publishing Company, Inc., 330 West 42d Street, New York, N.Y. James H. McGraw, Chairman of the Board; Malcolm Muir, President; James H. McGraw, Jr., Vice-President & Treasurer; C. H. Thompson, Secretary. $7.50 per year, in U.S.A. and possessions; $10.00 or £2.10s. per year in all foreign countries. 20c. per copy. Entered as second-class matter February 15, 1930, at the Post Office at New York, N.Y., under the act of March 3, 1879. Printed in U.S.A. Copyright 1932 by McGraw-Hill Publishing Company, Inc.

This Business Week:

Washington

Which way to recovery is still the biggest question in Washington—and Walla Walla. Administration opposition to a public works program and further federal borrowing sharply defines the issue between public and private means to the same end. *(p. 5)*

Despite President, press, business, Wall Street, and Secretary Mills, the Senate would have none of the sales tax. Some voted "No" just to avoid a long-drawn fight, some to protect their local tariff pets. Prediction is that all the "indefensible" tariffs will survive conference. *(p. 7)*

Incomes seem to have been placed in double jeopardy by the Supreme Court decision which would permit a resident of one state earning his income in another to be taxed in both. *(p. 14)*

Marketing

What we wear is the subject of the 7th chapter in *The Business Week's* study of the American consumer market. The ladies, it seems, get the lioness' share, and that share has been increasing. The family expenditure, however, remains about the same because the gentlemen have spent less. *(p. 17)*

Family troubles have brought many business families into closer harmony; office and shop have suspended their traditional feud to fight for the common good. Enlistment of every employee as a salesman has worked well. Surprising sales are being made, and many companies find sales influence multiplies through employee contacts. *(p. 8)*

Revival of home-cooking is behind the rise of ready-to-bake products which began in Louisville with biscuits and expanded in all directions to include pie crust for the pie belt. Bakers, watching falling sales, are bothered. Millers, doing the same thing, are glad of anything which promises to increase flour consumption. *(p. 9)*

Manufacturers of soap, breakfast food, rubber goods, big consumers of various raw materials, believe prices are as low as they're likely to get, are reported to be buying in quantity (and very quietly) where even recently they have been on a hand-to-mouth basis. *(p. 11)*

Gillette has declared war on infringers. *(p. 10)* Advertising, with an eye on consumer credulity, has written seven commandments, established a court to enforce them. *(p. 11)* Vermont maple sugar producers are about to market their wares through a state cooperative. *(p. 10)*

Foreign

Production control plans have a bad record but Japan has hopes for the new silk stabilization scheme which aims at the crux of control—the small farmer. The problem is to pass such a plan, provide a substitute source of farm income. Japanese farmers, too, must have relief. *(p. 21)*

China has a "Ten-Year Plan" for industrializing the country. British business, hoping for a year without wars or floods, considers the chances of getting a new customer. *(p. 21)*

Ship companies, European hotels, and resorts which once concerned themselves only with the "leisure classes" are now hoping to lure the lucky Americans who have vacation money to spend. Russia now competes with Cape Cod and the Rockies. *(p. 20)*

Plans for a conference at London "to revive world trade" give new hope to business. Lausanne may meet, may be postponed. Other problems than reparations have become more immediate—among them international currency and tariff adjustments. All Europe, meanwhile, is stunned by Germany's turn to militarism. *(p. 25)*

Farm Board

That ancient scrap between the Farm Board and the Chicago Board of Trade has broken out anew, and looks this time like a real row, with governmental hearings, and such. *(p. 14)*

Insurance

Policy loans are going for bread and bacon; companies are afraid that their securities may have to go for policy loans if the demand from policy-holders for self-relief continues. *(p. 12)*

Transport

The I.C.C.–R.F.C. 50-50 loan policy demonstrated its desirability in the Cotton Belt refinancing. The R.F.C. shared responsibility with the bondholders and the bankers; receivership was avoided, if narrowly. *(p. 13)*

Hearings on the 6-hour day will be of little help to the I.C.C., which is trying to determine the possible effects. *(p. 13)*

Figures

The general trend of the major indicators remains unchanged. Steel activity continues to ebb in spite of the greater motor output of Ford. Construction contracts show a gratifying upward trend, due principally to the expansion of public works programs. Residential building hasn't turned any corners. Electric power production and carloadings still sag. Check payments remain low, particularly in New York City. *(p. 28)*

In this issue:

"Our Clothes Budget," Part 7 of The American Consumer Market

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THE BUSINESS WEEK

The Journal of Business News and Interpretation

News of the week ending June 4, 1932

Administration Stand Clarifies Controversy Over Recovery Plans

Issue sharply drawn as to whether public or private channels are the better method

CONFUSION and controversy about the technique of attack on the problem of unemployment and business recovery have been clarified and the issues sharply drawn by explicit opposition of the Administration to a public works program, revival of sales tax suggestions, and the outcome of conferences of local reconstruction finance committees of bankers and business men cooperating with Federal Reserve authorities in several Reserve Districts.

On the one side are political interests in Congress, subjected to pressure from local labor, small business, and agricultural constituencies, who are all suffering from rapid contraction of employment and industrial activity, continuous decline of prices, and increasing relief demands, with diminishing local resources. Efforts to support security values, stop deflation, and stimulate recovery through normal process of credit expansion by Administration measures and Federal Reserve operations under way have so far been ineffective or too slow, or are regarded as too one-sided because they have been helpful mainly to banks, railroads, and security owners.

Extreme Ideas Develop

More aggressive, speedy, and large-scale governmental action is demanded, regardless of cost, and according to orthodox principles, by employing the public credit for direct federal relief appropriations or for public works. Extreme measures involving bonus payments, direct currency inflation, devaluation or alteration of the gold standard, or $5-billion public works programs are not being given serious consideration as yet.

Controversy is centered on the more moderate compromise proposal of Speaker Garner which would provide the Reconstruction Corporation with a billion of additional funds to be loaned for semi-public and private enterprises on a self-liquidating basis, put a $100-million appropriation at the disposal of the President for emergency relief purposes, and finance by a billion dollar bond issue federal public works already planned. The latter are chiefly post-offices and public buildings, and the additional interest charges on the budget plus sinking fund would be covered by a special ¼¢ gasoline tax.

On the other side are the Administration, banking interests, and industrial and business groups, who insist that there must be no further federal borrowing for direct relief or for additional investment in public works which are not "productive." According to this view, improvement in employment conditions in a sound way and on sufficient scale can come only through resumption of private investment and productive enterprise. The indispensable prerequisite to such resumption is improvement of security prices, restoration of investment confidence and business initiative, and expansion of bank credit. For this purpose it is imperative that the federal budget be balanced, further federal borrowing avoided, and tax burdens on private business enterprise diminished as much as possible.

How the Argument Runs

Continued public borrowing, they believe, must depress the bond market, weaken the position of banks and insurance companies, prevent credit expansion, discourage private investment, divert private capital to public uses, create a dearth of private investment funds, and increase the cost of capital for private enterprise. In addition, continued deficit financiering by the federal government will destroy confidence of foreign countries in the value of the dollar and lead to withdrawals of gold which will further weaken the powers of the domestic banking system to support the credit expansion necessary for

Acme

BONUS ARMY—*Some of the veterans who made their way from the West Coast to Washington by commandeering trains, living off the country. Others joined the patriots on the way to "get theirs"*

business recovery. Heavy income taxes will have the same effects, and since increased revenues are necessary to balance the budget, these should be derived principally from consumption or excise taxes.

All the measures so far applied by the Administration, it is pointed out, have been designed to strengthen the banking system and build up its reserves so that it will be in a position to support business recovery. These efforts have been successful, but lack of confidence due to uncertainty about federal finances has prevented prompt response and cooperation of the banks in using these reserves to initiate credit expansion and support the investment market.

A Job for the R.F.C.

If the government is to assist in speeding the process it can do so best by using the public credit temporarily to supply cheaper capital to private enterprises which are on a self-sustaining basis. This could be done by increasing the resources of the Reconstruction Corporation available for self-liquidating loans to semi-public and private projects, such as electrification of railroads, modernization of their equipment, improvement of public utilities, replacement of obsolete industrial equipment, reconstruction of slum areas, etc.

The Administration is said to be making extensive studies of the possibilities of reviving private investment in such fields of activity, especially with the temporary participation of public credit, and possibly by setting up public corporations for the purpose. All of this would naturally be impossible, from the point of view of the Administration, if large federal borrowing and expenditure for public works are undertaken. Moreover, it insists that a large-scale public works program would be a wasteful use of the available credit and capital resources of the country, and would involve a lot of log-rolling which could be more closely controlled where public funds were rationed under the Reconstruction Corporation to constructive private enterprises.

Young Committee's Work

The Young committee of bankers and business men—first of the local reconstruction finance committees set up to seek ways of putting available private credit resources to work—seems to have reached essentially the same conclusions as the Administration. In the New York Federal Reserve district excess reserves of the member banks have been above $200 millions for several weeks with deposits piling up steadily as a result of the large-scale open market purchases of government securities by the Reserve Bank, but loans and investments have not expanded and security prices have steadily declined. Four sub-committees were set to work studying ways of getting these credit resources into use. Several suggestions were made and one is being acted on, but they have so far been of local or minor significance.

Local member banks have arranged to subscribe to bonds of the Savings and Loan Bank of New York state, a central institution serving as an agency to discount mortgage loans of 166 savings banks and building loan associations in the state. The proceeds of these bond subscriptions will be made available to savings banks and building loan associations to refinance maturing home mortgages and to finance repairs and modernization of homes on which mortgages are held.

Stabilizes Real Estate

Some local employment would be provided by such repair work, but the main significance of this scheme is to postpone foreclosures and stabilize the real estate market until conditions improve. The same is true of collateral efforts of another committee of real estate interests working with the local Federal Reserve body and the Reconstruction Corporation to postpone drastic liquidation in the urban real estate field.

To Urge Acceptances

A project for stimulating the wider use of trade acceptances by business concerns is also being considered. This would make it possible for smaller concerns selling to large companies to secure funds promptly by rediscounting such trade paper accepted by the latter, instead of operating upon open-book accounts which are not readily acceptable now as a basis for bank credit accommodation. The result would be some expansion in the volume of commercial bank credit in use and in the velocity of its circulation; but the use of this device depends upon the initiative of business, and efforts to extend it during the past 12 years since it was first suggested have not been successful.

The most important project of immediate importance considered by these business-banker committees has been the possibility of supporting the bond market by large-scale cooperative pool purchases. It was recognized that such an effort would be most effective in restoring confidence and reviving private investment, but the conclusion has apparently been that a successful opera-

Wide World

STREAMLINES FOR SPEED—*Professor Pawlowski, of the University of Michigan, and one of the models of street cars used in air-tunnel tests. Streamlined front, rear, and undercarriage save power, make possible lighter equipment, and cheaper as well as faster operation*

tion of this kind is impossible or too risky so long as the federal fiscal and legislative situation remains uncertain. The committee has thus been compelled to pass the buck back to the Administration and Congress and admit its helplessness until the current controversies at the capital are settled.

Dramatic Plea to Senate Gets A Tax Bill—But No Sales Tax

Tariff provisions log-rolled into the measure expected to survive conference

WASHINGTON (*Special Correspondence*)—President Hoover, in dramatic personal appeal, business men, the stock market, the newspaper editors summoned to Washington, Secretary Mills—all these put pressure on the Senate for a sales tax.

And the Senate voted it down, 53 to 27; passed a hodge-podge tax tariff bill that now is in conference.

The sales tax really has more friends than the vote shows. Many Senators voted against it who ordinarily would be for it—as Senator Glass, who said he and others were trying only to avoid a long filibuster.

Striking a Balance

Still other Senators feared to vote for the sales tax lest their states lose advantage of the tariff provisions log-rolled into the measure.

Last-minute controversy as to whether the bill will actually balance the budget roused considerable feeling. Senator Tydings, of Maryland, opposing it because of its "indefensible" tariff provisions, but unwilling to vote to stop it, obtained permission to vote "Present" on the final roll call. He suggested the country would find out in 60 days that the budget was not balanced.

Senator Reed, of Pennsylvania, ardent advocate of the sales tax, but primarily defender of the bill as approved by the Senate, hotly answered that it would balance—with an expected saving by the economy bill of $300 millions.

Senator Copeland, of New York, pointed out that the economy bill had been completed—also late Tuesday night—and only carried a saving of $238 millions.

Reed didn't know when he spoke that the committee had killed a saving of $51 millions in payment of disability allowances for veterans.

Predictions are freely made that the conferees will retain the additional tariff schedules added by the Senate. Coal and oil tariffs are now in both bills. Copper and lumber are in the Senate bill, but not in the House bill.

Some of the other important differences to be threshed out in conference are:

Income taxes: House, normal taxes of 2%, 4%, and 7%, with surtaxes running up to 45%. Senate, normal taxes of 4% and 8%, surtaxes up to 55%. Estimated revenue from House income taxes, $211 millions; from Senate income taxes, $222 millions.

There would be a wider discrepancy in the figures had the Senate not struck out the House provision subjecting dividends to a double tax. The House would not permit the deduction of dividends before computing the normal tax. The Senate bill continues existing law, charging only surtaxes on dividends. On this difference the House is expected to yield.

Corporation taxes: House 13½% with 1¼% additional on consolidated returns. Senate 14% straight.

Vary on Loss Deductions

The Senate also modified somewhat the drastic provisions of the House bill regarding deductions of losses from incomes, to such an extent that on this the Senate bill is estimated to yield $40 millions less than the House bill.

On admissions, the House exemption is 45¢ and the Senate is 40¢.

Both bills contain a boost of first-class postage rates from 2¢ to 3¢. In addition, the House bill boosts the second-class rate, affecting newspapers and magazines. The postal increases as proposed by the Senate would yield $160 millions.

Several far-reaching amendments were adopted in the last few hours of debate in the Senate.

For example, with a bare statement by Senator Burton K. Wheeler, of Montana, it adopted without a roll call an amendment aimed at tax-exempt bonds. It would boost the inheritance tax on such bonds by 50%.

Senator Wheeler told *The Business Week* his intention is to apply the 50% increase to the highest bracket reached by the estate or gift.

He said an opinion by Justice Brandeis of the Supreme Court proved his amendment was constitutional.

Senator Howell obtained an amendment to the electricity consumption tax, imposing a tax of 3% on the receipts of the power companies from all sales of current. This also goes to conference. It is estimated to yield $51 millions. A tax on electric current receipts was discussed in the House, but was not approved by that body.

The Finance Committee had approved a rate of 4% on household electric bills, but exempted large users. Howell frankly announced he wanted a tax the companies couldn't easily pass on.

To make it harder on the power companies, Senator Couzens managed to have stricken out a phrase that this tax was to be "payable from net income but not otherwise." As now drafted, the amendment taxes the power companies whether they are earning a profit or not.

Now It Can Be Told; Copper Stocks Have Risen

THE first official report on the condition of copper stocks since the monthly statistics were stopped 7 months ago appeared in the annual report of the American Bureau of Metal Statistics, issued last week.

The figures reveal little that has not already been known despite the secrecy.

Total stocks of copper in the hands of North and South American producers amounted on January 1, 1932, to 722,014 short tons, against 585,974 tons at the beginning of 1931, and 439,726 tons 2 years ago. Of this, refined stocks totaled 544,278 tons, compared to 367,175 a year ago and 171,320 two years ago. Between October, first month of the statistical secrecy, and January, refined stocks showed an increase of 46,283 tons.

Gasoline Prices Do the Unexpected

NEW YORK motorists, outbound for the week-end, found new low prices on Socony gasoline pumps, prices lower than in 10 years, so low that many stations had no printed figures, used crayons.

By nightfall, other big brands had followed suit. The summer motoring

season, ordinarily the signal for a rise of a cent or so, started off with reductions of 1½¢ to 4¢ in the metropolitan area.

Tank car price is 7¼¢ a gallon. Retail price, exclusive of tax, is around 10¢, depending on the district. This makes it almost impossible for cut-rate independent stations to cut the price further. And, at the same price, most motorists prefer a known to an unknown brand. How long the new prices will last is a matter of opinion. Some feel that such a move is foolish at the beginning of the season of heaviest consumption. Others believe that, with things as they are, low prices are necessary to maintain consumption, keep the family chariots rolling in the penny-pinching summer to come.

When Everybody Goes Selling There Are Cheerful Results

Employee sales drives do so well that many companies are adopting the plan

INCREASING numbers of manufacturers and retailers are organizing their employees into huge sales forces, charging all persons on the payroll with the definite responsibility of helping to keep their respective jobs by getting orders for the company's products.

General Electric Co. has announced an employees' sales drive for the month of June, and expects its huge army of men and women workers to solicit friends, relatives, neighbors, interest them in one or more of the company's major home appliances.

Employees are to establish original contacts only, determine whether a General Electric radio, refrigerator, washing machine, ironing machine, vacuum cleaner, sewing machine, sun lamp, or electric range may be sold, and pave the way for one of the specialty salesmen to call. The employee unearthing a prospect will receive 5% commission on any sale made prior to July 1. Every part of the company's nationwide distributing organization will be geared into the effort, so that every potential buyer can be properly followed up and served. Radio announcements of the drive are expected to help.

Westinghouse Gets Results

General Electric Co.'s campaign is in the same consumer market scoured by the May drive of 35,000 employees of the Westinghouse Electric & Manufacturing Co. (*BW—May4'32*). During the first 3 weeks that effort produced 12,000 sales, totaling $500,000. It is expected to pass the $1 million goal by a considerable margin.

Orders received by Westinghouse as a direct result of employee effort have shown surprising variety in size and type. They ranged from a small table appliance involving a few dollars to contracts covering multi-unit apartment house installations of refrigerators, electric ranges, lighting units, etc.

Certain divisions of the General Motors Corp. and Chrysler Corp. have booked substantial numbers of new-car orders as the direct results of organized employee sales drives.

The American Telephone & Telegraph Co. had such excellent success with its 1931 employees' sales drive for new installations that the push is being continued during 1932, and officials of the company report that resulting new business represents $4 millions monthly in revenue and contributes to offset considerably the decrease in commercial billings.

Sears Offers Commissions

Sears, Roebuck & Co. has organized the employees of its various retail stores in some districts into outside sales forces. It offers them a specified nominal commission on sales made to contacts established by employees.

Certain department stores are organizing the employees of specific departments handling merchandise susceptible to outside selling. They not only urge outside selling by employees actually on their payroll, but also stimulate sales activity by other members of the employee family. They find that frequently unemployed members of employees' families are glad to earn commissions.

Practical reasons explain why employees' sales drives succeed so well at this time. Rural districts and the residential districts of large cities are overrun with house-to-house salesmen and canvassers.

Unemployed salesmen, office workers, mechanics, have started to peddle various household appliances, specialties, novelties, soaps, kitchen utensils.

Householders have been annoyed beyond endurance by these agents, who ring their doorbells from morning to night. Women at home have stopped answering doorbells, or make certain that it is someone whose errand they know, before answering or opening the door.

When employees are enlisted in sales work they are not expected to go to the homes of strangers. They use their circle of relatives, friends, and acquaintances. They have no trouble in gaining access and are given ample time to tell their story, which, flavored with the personal interest, often a considerable dose of sympathy, generally succeeds in coaxing forth some otherwise inaccessible dollars.

New Models, Fewer Sales Cost Ford $54 Millions

Loss of sales and expense of work on new models during 1931 cost the Ford Motor Co. nearly $54 millions. The news comes, not from Detroit, but, as usual, from Massachusetts whose peculiar tax laws affecting "foreign" corporations exact the only statement of Ford finances which ever is published.

Biggest cut that the Massachusetts Commissioner of Corporations and Taxation found on the 1931 Ford balance sheet was in inventories, from $112 millions in 1930 to $65 millions in 1931—nearly 50%. Cash, which includes notes and receivables, securities, patent rights, trademarks, etc., dropped about $10 millions to $372 millions in the year. Investments in real estate, machinery and equipment declined a little.

By this showing Mr. Ford's mind should still be easy about his financial security. His profit and loss account stands at more than $655 millions. For the 12 years since 1920—including losses of $43 millions in 1927, of $72 millions in 1928 and this last one of $54 millions, total net profits have been nearly $540 millions.

About 173,000 shares of stock are outstanding, closely held by the Ford family. Total earnings per share have been something over $3,000 to date. Inasmuch as each share is still carried at its par value of $100, the average earning per share per year for the 12 years works out to $260. So Ford stock still looks like a good buy—if you can get any of it.

Whoever Wins Biscuit Battle, Baker's Bread Is Going to Lose

But the millers figure that it's losing anyway and these ready-to-bake products do sell flour

DECLINING family income has put Mrs. J. H. Housewife back into aprons and revived her acquaintance with the kitchen range. This reunion has caused marches and counter-marches in the retail field, resulting in one scrimmage that should go down in merchandising annals as the Battle of the Biscuits.

Bakers, standing on the sidelines, have seen their business injured. They are going to devote some irate attention to the matter at approaching conventions. The retailing of biscuits, dough and biscuit flours has affected the demand for baker's bread. Students aver that this drop in sales is largely due to other factors, but bakers look at the situation through blue lenses which magnify every ill on which they are focused.

First, a nameless genius of Louisville started mixing dough for buttermilk biscuits and selling it to neighbors. These made noble examples of real Southern biscuits—those melting allurements greeted by every hostess with the immemorial ritual, "Take two and butter 'em while they're hot." The prepared dough waxed in local popularity. Even those dark magicians of the Southern kitchens sometimes fail in their buttermilk concoctions when important guests are to dinner.

A Southern Invasion

Ballard & Ballard, Louisville millers, looked upon the idea, saw that it was good, adopted it for their own. Next came an amiable reprisal for the outrages of the Civil War. The Southern biscuits crossed the Ohio River, invaded the lands and cities of the Yankee. "Oven Ready" they were christened. Retail price 10 biscuits for 10¢.

The delicacy was temperamental. It had to travel under refrigeration, 40 degrees being the proper temperature. Kraft Phenix Cheese Corp., having ideal cooling facilities and plant, undertook distribution. Victoriously the buttermilk biscuit swept north and eastward. Between the middle of December and the first of April, Kraft sold 175 carloads. Came the warm weather with deplorable results to the invaders. Retailers let the biscuits get hot. They spoiled and exploded protestingly. Sales dropped 40%. Kraft does not believe the charge that the first acceptance of Oven Readies was a passing fad, is educating retailers in properly caring for them, is investigating possibilities of national distribution.

Another organization proves by its works that it believes there is a market for prepared biscuit dough. Ward's, huge New York baking company, has just entered the market with "Ready to Bake" biscuits. These lack the buttermilk and the Southern background. Twelve sell for 10¢—going the Louisville product 2 biscuits better. Ward also is putting out a prepared pie crust under the "Ready to Bake" label. The upper and lower crusts, rolled, cut and ready for the filling, retail for 15¢. Ward isn't first in the prepared pie crust field. Flako, a New Brunswick, N. J., product and Good Luck, native of Rochester, have shown that it could be done.

New York Suspends Judgment

New York retailers are skeptical of the buttermilk dough and are waiting to see the public reaction to the other biscuit. A new product that has shown even more dramatic possibilities is the prepared biscuit flour.

A year and a half ago Washburn-Crosby Co. began a try-out of its Bisquick flour on the Pacific Coast. Reception was enthusiastic. In March the newcomer was brought into Eastern markets. It sold so fast that mill capacity was inadequate. The startling success of Bisquick disturbed its sponsors. Jumpy from long discouragement they feared there was a catch in it. Demand shows every indication of holding up, a result which the product justifies. You simply add milk or water to make the biscuit dough. The flour keeps indefinitely, a virtue achieved by a new vegetable shortening.

A Patent Suit Already

Washburn-Crosby is now involved in a suit brought against Commander Larabee mills which put out a biscuit flour called Kwik Biskit. Plaintiff charges trade mark infringement. Commander Larabee has countered with charges of unfair competition, etc. The lawyers, smiling, start taking down their books.

Bakers observe the drift disconsolately. A recent survey estimates that poundage of baker's bread is off 13%, baker's cake off 31%, since last year. One investigator made a still hunt through industrial towns of New York

The Business Week

COMMUNITY GARDENERS—*The B. F. Goodrich Co. has acquired 275 acres of good soil in Cuyahoga River valley near Akron. Here, part-time and former employees raise some of their own food. The tract is not split up into individual plots, but farmed as a whole under expert guidance. Men get vegetable dividends in proportion to the number of days worked*

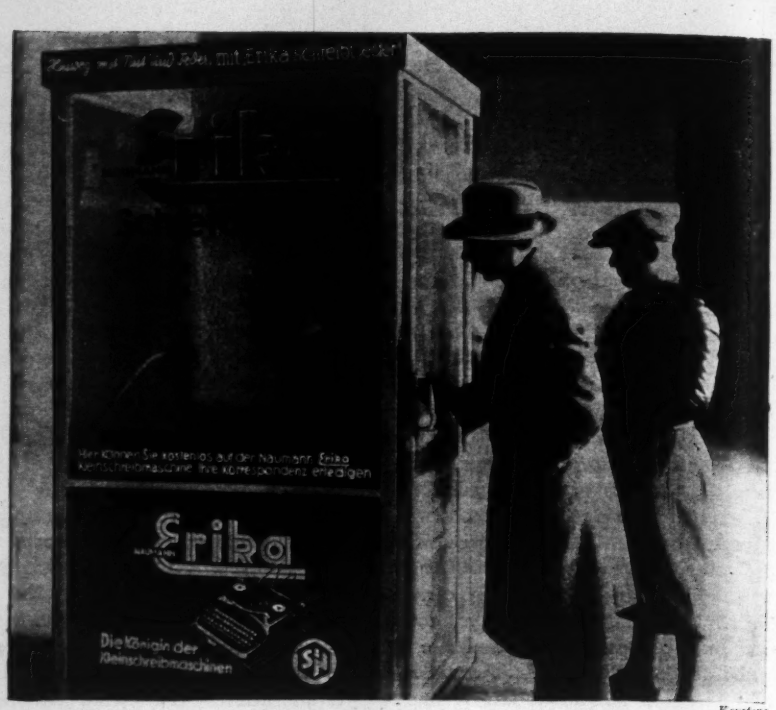
and Pennsylvania to find out what was happening. He discovered two things:

First, that the wives of workmen made up more dough than was needed by the family. The excess was put in a basket and peddled among friends by children. Sympathetic reasons induced neighbors to buy this bread.

Second, many working families were doing without bread. To keep the unemployed breadwinner in a better mood, his wife was serving hot meals. These were simple, consisting of meat and vegetables. Potatoes (selling in some places at 23¢ a bushel) usually took the place of the baker's loaf.

This investigator considered the first phenomenon unimportant, the second significant. People are taking to bread substitutes. Prominent among them are breakfast cereals and vegetables. For years per capita consumption of flour has been falling. It appears to be a permanent trend. The slump aggravated the angle. Between last May 7 and July 1, American mills produced 60,598,422 barrels of flour, which was almost 7,000,000 under the previous year.

Biscuit, prepared doughs, baker's bread—all use flour which mills supply. The millers' problem is to point upward that drooping line of per capita wheat consumption.



Keystone

SELF-DEMONSTRATOR—*A German manufacturer of portable typewriters sends this booth around to conventions to show that personal typewriting is better than pen and ink. It is provided with a desk, electric light, typewriter, and stationery, may be used free of charge*

Gillette Starts War On Bootleg Blade Sellers

GILLETTE SAFETY RAZOR CO. has just mailed a letter to dealers which gives notice that they are liable to infringement suit if they sell blades that violate Gillette patents.

The safety razor business is really the blade business. A swarm of manufacturers, domestic and foreign, turns out cheap blades for popular razors, Gillette preferred.

The Gillette Co. patent situation was materially improved through the merger with AutoStrop. The new Gillette razor, with novel combinations of guardplate lugs, brought out in April, 1931 (*BW—Apr15'31*) was specifically designed to increase the difficulties of would-be imitators. The company's patents on it were considered so all-inclusive that any blade manufacturer producing a blade that would fit more than one combination of lugs could be prosecuted.

The most recent addition to the company's series of protective patents was issued in May, 1932, covering a razor blade that has cut-away (the AutoStrop) corners, is flexible, has a center slot substantially as long as its cutting edge, and is double-edged.

The letter to dealers is expected to reduce bootleg sales materially. The company's serious intent is demonstrated by the fact that within 9 days after the most recent patent was issued, it started suit for injunction and damages against one important blade manufacturer.

Meanwhile retailers who have handled various blades for many years say Gillette "blue" blades have so far defied successful imitation and are producing for them satisfactory repeat business.

Radio Industry Plans Better Sets Cheaper

BETTER sets and greater values are the answers of radio manufacturers to conditions restricting their markets. The eighth annual trade show of the Radio Manufacturers Association, held in Chicago, revealed that the industry expects to spend $200 millions in the next 6 months, that it has developed better reception as an argument for replacing the millions of obsolete sets, that improvements and lower prices will be used to sell the 13 million receiverless American families.

Noise-suppression circuits in the new models reduce the squawks incidental to tuning between stations. Greater use of two speakers to the set corrects distortions due to loud-speaker overloading. Tubes and amplification have been generally improved. Automatic control of volume and tone is coming along.

New Co-op to Market Vermont Maple Crop

VERMONT producers of maple sugar and syrup propose to market their products collectively, have organized the Vermont Maple Cooperative, Inc., under the agricultural marketing laws.

Vermont in 1930 produced 12 million pounds of the nation's 34 million pounds of maple products. Up to now, various attempts to coordinate marketing have been unsuccessful.

Under the guidance of the very aggressive Agricultural Department of the State of Vermont and the Vermont State Farm Bureau, a start has now been made.

Special packages are being developed, each to carry the certification of the Vermont Agricultural Department. A sectional advertising campaign and an intensive marketing program are being prepared.

Believing Prices at Bottom, Industry Buys Raw Materials

Soap oils, grains, fuel oils, rubber picked up quietly, stored for future use

NATIONALLY-KNOWN companies in widely divergent lines are beginning to accumulate stocks of raw materials. Secrecy is the price of patronage, and any "leak" would bring instant switching of favors to some less careless competitor, but the irrepressible "grapevine" telegraph carries the news.

Large soap companies use palm oil, cocoanut oil, and tallow in tremendous quantities, and purchases of these materials at advantageous prices means extra margins that are helpful in sales promotion, advertising, and dividend disbursements. Last week palm oil sold down to 2½¢, tallow to below 3¢, cocoanut oil at around 3¢ per pound, practically the lowest prices ever recorded, and it is reported that Procter & Gamble and Colgate-Palmolive-Peet Co. have made sure of a large supply of these commodities after having stood on the sidelines for some time, watching prices go down until they considered that bottom had been reached.

Buying for Storage

Manufacturers of cereals, breakfast foods, cracker and bakery products have been buying grains on a hand-to-mouth basis. They are now changing tactics, buying for storage.

Just recently the president of one of the largest companies in the world has given instruction that grains are to be accumulated quietly until all available storage space has been filled.

A large Ohio manufacturer, who uses fuel oil in extremely large quantities, has been accustomed to buy on contract. He foresaw that oil could not continue going lower, had engineers calculate the cost of storage tanks of such capacity that a given rise in oil prices would pay for the tanks in savings; built the tanks; filled them when oil was still very low; now is using the low-cost oil and expects to replenish supplies as conditions warrant.

The two large mail order houses are buying their own raw rubber, turning it over to the company manufacturing their tires. They are said to be in position to maintain present low tire prices long after raw rubber has reached much higher prices.

One large New England manufacturer of rubber footwear and specialties, who up to recently used reclaimed rubber, has accumulated a large stock of raw rubber. At present prices it is cheaper to use new rubber than buy the chemicals for the reclaiming process.

Large utilities are reported to have laid in stocks of copper at 6¢, to be manufactured into transmission cable as need arises.

Printing Plates, Wrappings, New Aluminum Uses

NEW uses for aluminum foil are occupying the research men of that industry. The use of crumpled foil as an insulating material has already been reported (*BW—Mar9'32*). New applications of this principle include refrigeration systems on trucks, ships, and railroad cars, where weight counts.

The foil is gaining in acceptance as a wrapper for fruits and vegetables, butter, and cheese, particularly where they are to be kept in a refrigerator next to foods which are quick to absorb odors.

In Germany, experiments have been successful which use aluminum foil in printing. A device was exhibited at the Leipzig Fair which makes a printing plate cheaper than the usual paper matrix. Drawings may be made directly on the foil, line cuts and type may be impressed on it. Resulting plates are true and may be kept indefinitely without deterioration

Advertising Sets Up Code, "Supreme Court"

A JOINT committee of the Association of National Advertisers and the American Association of Advertising Agencies has dragged into the open seven deadly sins of competitive advertising and proposed a means by which they may be corrected without governmental intervention. Practices denounced are:

False statements and misleading exaggerations.

Misrepresentations by word or picture.

Offensive contents of advertisements.

Sweeping or unsubstantiated destructive statements.

Misleading price claims.

Pseudo-scientific claims supported by vague statements of authorities.

Questionable testimonials.

National and local Better Business Bureaus are the lower courts for arguments arising from alleged violations. Appeal from the tribunal may be taken to a supreme body composed of 20 "justices" to consist of: 5 members each of the 2 cooperating organizations, 5 publishers of national magazines, and 5 "members at large" who must be business men of standing unconnected with advertising or publishing.

Retail advertisers are supporting the move with a plan to bring order in their own field. B. H. Namm heads a committee formed for this purpose. They hope to eliminate extravagant claims, promote acceptance of the fair practice code, empower Better Business Bureaus to enforce its recommendations.

California Oil Plan Is Voluntary Curtailment

A NEW oil production proration plan goes into effect in California this week. It has the active backing of the independents, who were instrumental in defeating the Sharkey bill giving the state definite authority to regulate production.

Actual production has been running above 500,000 bbl. a day, which is more than the quota set the first of the year. The new plan raises the quota by 20,000 bbl. a day to 476,700.

The new plan is voluntary. It is administered by 2 committees, one representing operating producers, the other representing all oil interests and the public. The second committee determines the quota; the operators' committee enforces it.

Vacuum Oil Broadens Pension-Insurance Plan

EFFECTIVE July 1, Vacuum Oil Co. replaces the pension and death benefit plan it has privately operated for 12 years with a new one in which employees will contribute and which will be administered by the Metropolitan Life Insurance Co. About 8,000 employees will be affected and will receive about $17 millions coverage against normal death and against accidental death and dismemberment. The latter coverages are new ones.

The retirement annuity plan provides

that men may retire at 65 and women at 55 years on a pension approximating 2% of their total pay after joining the plan. Present employees will get additional annuities equal to 2% of their pay for each year of service prior to January, 1932. Thus a contributing employee retiring after 35 years' service would get a total pension of about 70% of his average pay.

Death benefits are approximately equal to a year's pay; an additional benefit of about the same amount is paid for accidental death. There are specific benefits for accidental loss of hands, feet, or eyesight and disability benefits for permanently disabled employees. Employees leaving the company before retirement age can get the cash surrender value of their policies or can arrange with the insurance company for an annuity provided by their own contributions. After 25 years' service, withdrawing employees who do not take cash surrender value will retain the right to receive all retirement annuities provided by company contributions as well as their own.

Insurance Policy Loans Pay More Grocery Bills

LOANS on insurance policies continue to mount as the holders require cash for bacon and potatoes. This emergency use of insurance has been a strong selling point. But it has grown to record proportions and becomes a problem for insurance executives who fear lapse of policies, the expense of writing new business, the forced sale of securities on a depressed market to meet loan demands. Help from the Reconstruction Finance Corporation has prevented a wholesale cashing of such securities, but a concerted campaign against the evil has been unable to reduce the rate of increase in loans.

At the end of March policy loans and premium notes of the legal reserve companies totaled $2,742,000,000 which was 16.5% of the company assets. The figure for 1931 was $2,594,000,000; for January, $2,655,000,000; for February, $2,704,000,000. Percentages of assets were, respectively, 15.9, 16.3, 16.4.

These loans jumped the $2-billion mark in 1929 when policyholders wanted money for speculation. For 1928 the figure was $1,790,836,000; for 1929, $2,139,669,000. Current income of some companies has been exceeded by policy loans, making necessary an appeal to the R. F. C. to avoid sacrifice of securities. To combat the evil, companies are accepting small sums to pay off the advances. Response has been especially good on the Eastern seaboard. Executives believe this is due to sale of securities by persons realizing the value of holding on to their policies. It would partly explain a dribbling liquidation of securities in this area.

Urges "Safe" Rates For Fire Insurance

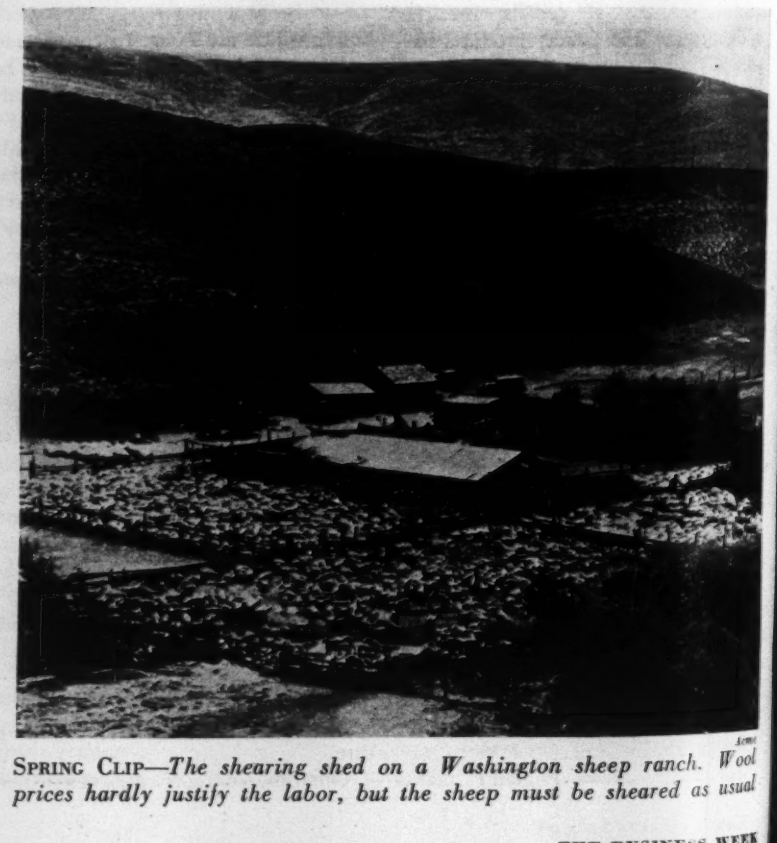
THE National Board of Fire Underwriters has been taking notes on depression cures and preventives. So far no stock insurance company has failed to meet every policy contract and so far this depression has differed from all previous ones in that it has brought no specially costly conflagrations and no general increase in what insurance people call "moral hazard fires," though a rise in dwelling losses has aroused suspicions. The country's aggregate fire loss for 1931 was only $464,633,265 against $501,980,624 for 1930.

However, no fire insurance company has escaped the effects of declining security prices, contracting property values, and the general shrinkage of premium income. This has been helped out by depression cuts in premium charges—from the 80.08¢ per $100 that the 221 National Board members averaged in 1929 to the 73.29¢ they were getting in 1931.

In his presidential address on May 26, C. W. Bailey, head of the National Board, urged more backbone on premium rates as a contribution toward a cure for present troubles. As a preventive of future ones he suggested that "the administration of fire insurance in the public interest imperatively requires such premium rates as will not only fully cover all probable fire losses, but also give the companies the wherewithal to create surpluses commensurate with the risk of periodic severe contractions of the market worth of their investments."

Penn Gets Its Way Because It Offers Jobs

PROMPT acquiescence by the Interstate Commerce Commission in the Pennsylvania Railroad's plea for better terms on its R.F.C. electrification loan (*BW—Jun1'32*) is interpreted as an indication that the Administration has no intention of letting this important employ-



SPRING CLIP—*The shearing shed on a Washington sheep ranch. Wool prices hardly justify the labor, but the sheep must be sheared as usual*

ment project drop after the nationwide advertising given it by the President.

Under the revised terms, the Penn is no longer required to raise $27.5 millions through sale of its securities in order to obtain a loan for a similar amount from the Finance Corp. And, instead of being deferred until October 1, the loan is to become available at once: $5 millions June 1, $9 millions July 1, $4.5 millions August 1, $4 millions September 1, $5 millions October 1. Finally, changes in the collateral list release the $17.7 millions of gilt-edged Philadelphia, Baltimore & Washington general mortgage 5% bonds for further financing, replacing them by $11.7 millions of first mortgage 5% guaranteed bonds of the New York Bay Railroad and $2.5 millions of Pittsburgh, Cincinnati, Chicago & St. Louis Railroad guaranteed 5% capital stock.

Cotton Belt's Narrow Squeak Was a Lesson to the R.F.C.

Demonstrated soundness of its 50-50 relief policy, soon due for wider application

THE Cotton Belt has escaped receivership. It was a narrow squeak but it demonstrated to the satisfaction of the I.C.C. and the R.F.C. that the 50-50 loan policy is just the right measure of relief, that it is neither necessary nor desirable to lift all responsibility from the shoulders of bondholders and banks.

Deposit of 90% of the outstanding $20.7 millions of first consolidated mortgage 4% bonds due June 1 will permit the management to refund, paying the bondholders 50% in cash from the Finance Corp. loan of $18 millions, which also had to be stretched to cover half of $9 millions of bank loans outstanding.

Next Job—Bond Interest

In addition to staving off threatened receiverships, the Finance Corp. will shortly be called on to avert defaults due to inability of many roads to meet bond interest charges. The situation now is exactly the reverse of what it was on Apr. 18 when President Hoover announced that the Railroad Credit Corp. could anticipate 1932 surcharge revenues of $100 millions to meet probable demands of $60 millions. With the steadily diminishing volume of traffic, the surcharge estimate has shrunk to $55 millions and the requirements of needy roads have jumped to $100 millions.

Debility of the surcharge pool is due partly to the fact that 12 states have refused to permit the roads to apply the authorized increases on intrastate traffic. The I.C.C. is investigating to determine what can be done to force them into line, but little more funds from this source can be counted on this year as a court battle is in sight. A strong admixture of politics colors the attitude of balky states. In 9 of them, the members of the state regulatory commissions are elected by popular vote. In the other 3, the commissioners are appointed by the governor.

Denver, Rio Grande Asks R.F.C. Loan for Cutoff

ODDS favor the belief that the Interstate Commerce Commission will insist upon construction of the Dotsero cutoff (to open a new short route between Denver and Salt Lake City via the Moffat tunnel) with $3.5 millions advanced, if necessary, by the Reconstruction Finance Corp.

The Denver & Rio Grande Western notified the commisison last week that if it wants to push this long-deferred project, the Finance Corp. will have to put up the money.

The road asks the commission to postpone from June 15, 1932, to Mar. 15, 1933, the date by which it is required to start work on the 42-mile line. The road asks "as a last resort," if postponement is denied, that sufficient time be granted to enable it to submit to the Finance Corp. an application for a loan.

Six-Hour Day Hearing Becomes a Debate

NEITHER the evidence submitted by the railroad managements nor that of their employees will be particularly helpful to the Interstate Commerce Commission in its effort to forecast the effects of a 6-hour day for rail labor

The chief point that the managements brought to the current hearings was that the shorter day would mean an increase of some $600 millions in operating costs (*BW—May25'32*). The testimony of the labor organizations was devoted to showing that this need not happen if managements made various readjustments in service.

Sticks to "Featherbed"

Among the changes suggested were shorter runs, reduced tonnage, elimination of delays. Apparently the workers are little disposed to relax the so-called "featherbed" rules, as a means of cutting the expenses. On a direct question from Commissioner Eastman, D. B. Robertson, president of the Brotherhood of Locomotive Firemen & Enginemen, said that some rules could be eliminated, that the men "are willing to take every rule and sit down with the managements and try to work out a basis." But E. W. Laughlin, assistant grand chief of the Brotherhood of Locomotive Engineers, killed any hopes based on this statement when he declared flatly that the employees will not consider elimination of time-and-a-half for overtime, nor the dual wage formula under which they get paid for miles or hours, whichever is greater.

W. Jett Lauck of the Brotherhood of Locomotive Firemen testified that, in conforming to the Adamson 8-hour law, the roads had found it cheaper to pay increased overtime than to adjust operating methods to the 8-hour limit. He conceded that the increased labor cost would undoubtedly be an incentive to further mechanization which would gradually destroy the effect of the change-over to a 6-hour basis, estimated the transition period at 16 years. Then, he thought, it would again be necessary to step down the hours.

New York Commission Raps Holding Companies

DENYING the petition of Long Island Capital Corp., a holding company, to acquire stock in the Long Island Lighting Co., the New York Public Service Commission, through its chairman, Milo R. Maltbie, severely censures holding companies generally and challenges the value of their financial services to operating companies.

The opinion holds that the addition of a holding company to the Long Island system would be "an element of weakness"; that "many other systems

would be better off without the top-heavy holding companies, the exaggerated claims of financial superiority of which are mere myths." Experience has shown, Mr. Maltbie continues, that holding companies are not elements of strength, that when crises come holding companies cannot obtain funds and in good times operating companies need no external aid.

Pennsylvania's "Council" Makes Promotion Progress

THE Greater Pennsylvania Council, created last year by act of the legislature on the recommendation of Governor Pinchot, is progressing rapidly on its program to increase demand for that state's industrial and agricultural products, enhance the value of its recreational regions and historical spots, bring new industries and people within its borders; to do for Pennsylvania, in short, what the New England Council does for New England.

The council consists of 150 leading citizens, of whom 15 form an executive committee which has planned and instigated the 20 projects now under way. They include, along industrial lines: economical purification of state clays; tests of native stones for architectural and building uses; study of economic geography of the state and its possibilities for industrial and commercial expansion.

In agricultural planning the council is classifying one half the state's area as to its fitness for agriculture, reforestation, hunting and fishing, and recreation; is studying farm and produce marketing methods to aid state farmers; and is conduction land-utilization and soil surveys.

In the general economic field, surveys in progress include: population trends; possibilities of low-cost housing developments; general economic conditions affecting the state; a study of the industrial possibilities of the area affected by the new Pymatuning Dam in northwest part of the state.

Battle of Boards Begins; Farm vs. Chicago Trade

WAR has broken out between those old foes, the Farm Board and the Chicago Board of Trade. This time, it looks like a good scrap.

Farmers' National Grain Corp., child of the Farm Board, is automatically entitled, being a co-op, to membership in the Board of Trade under the Grain Futures Act of 1922. Thus it can trade on the floor in cash wheat. But the exchange set up a clearing corporation, through which all futures deals must go, at one-eigth cent a bushel commission, and the corporation passed a rule that effectively barred the Grain Corp. from membership.

Commissions on Grain Corp. trading run into real money. So the corporation bought Updike Grain Co., for its membership in the clearing house. Its personnel was retained, executed Farm Board orders.

Now the Board of Trade has expelled the Updike firm, charging false affidavits of ownership and various other offenses. The Farm Board hotly retorts there was no concealment or deceit, that upon inquiry full facts of ownership were disclosed to the Board of Trade more than a year ago.

Thoroughly aroused, the Farm Board has filed complaint against the Board of Trade. As required by law, the Secretary of Agriculture, the Secretary of Commerce, and the Attorney-General sit as a court of inquiry. Hearings begin June 8.

The Farm Board now demands open membership in the clearing house as a right under the Grain Futures Act—evidently believes it was unnecessary to buy the Updike firm at all.

If Relief Isn't "Expense" Corporations May Balk

BECAUSE about 20% of the community chest funds raised throughout the country are contributed by corporations, relief organization officials will be greatly interested in the Interstate Commerce Commission's decision on whether the New York Telephone Co.'s $75,000 contribution to the New York emergency employment fund can be properly charged to operating expenses.

Frank R. Kellogg, counsel for the Association of Community Chests and Councils, fears that business concerns generally would tend to leave relief donations to the conscience of their individual stockholders if the I.C.C. rules that they are not proper operating expenses. This might have serious effects upon future fund-raising campaigns.

Roy B. Shaver, assistant comptroller of A. T. & T., maintains that the accounting procedure used makes little difference; that when a donation is charged to expense instead of directly to surplus as 29 state regulatory commissions desire, surplus is reduced by that amount anyhow. Commissions are convinced, however, that utilities like to hide items of this sort in operating expenses against the time when mounting costs will support an application for higher rates. If donations can be charged against operations, commission spokesmen say, every account must be checked in every rate case.

Court Puts Incomes In Double Jeopardy

IF you ask a state to give you police protection and the other privileges that go with residence within its boundaries, the state can ask you to pay taxes—even on income earned in another state. In deciding this on an appeal from Mississippi's ruling that one of its citizens was liable for an income tax on earnings derived from highway construction for the state of Tennessee, the U. S. Supreme Court has placed its approval on something that looks like double taxation on the same income. This follows even though Tennessee's right to levy on the disputed income was not in question and the matter of double taxation was not specifically brought into the case.

With an increasing number of states voting income taxes and levying such taxes on income earned within their borders by residents of other states, and with the other states equally hungry for taxes, this decision is going to get wide attention as its implications become more widely understood.

Arguments that the Fourteenth Amendment to the Constitution offers protection against "double jeopardy" of this kind were disposed of by the Court's opinion in this case that it could find no basis for holding that "taxation of the income at the domicile of the recipient . . . is in any respect so arbitrary or unreasonable as to place it outside the constitutional power of taxation reserved to the state."

Incidentally, the Mississippi law exempts corporations from the tax on "foreign" incomes levied on individuals.

"Good Lighting...Quality Paint...
twin agents in reducing production costs"

says **JULIUS DANIELS**
President,
Illuminating Engineering Society

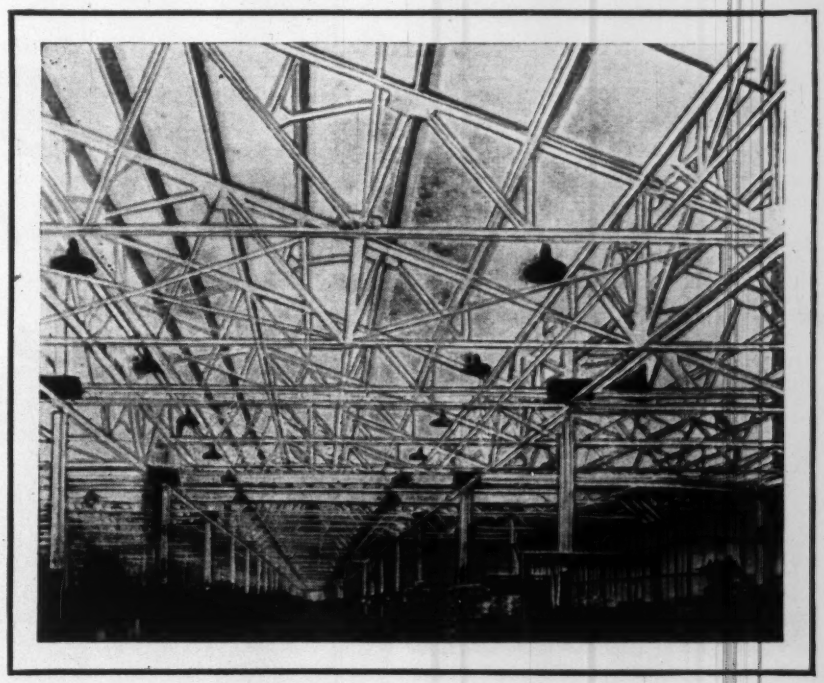
TODAY, when narrow margins separate profit from loss, Mr. Daniels' statement is doubly significant. The startling economies you can achieve through better lighting have been proved conclusively in every type of industry.

Mr. Daniels' statement continues:

"Two things are essential . . . adequate sources of light and bright interiors that reflect light and put it to work.

"The kind of lighting equipment your plant may need will vary to meet special conditions. But one factor is constant . . . white ceilings and walls that remain white will insure the maximum illumination from your lighting system."

Tests in hundreds of America's leading plants bear out Mr. Daniels' statement. Factory interiors, unpainted or darkened with age, waste as much as 80% of the light that strikes them — cause serious loss in productive output. Kept a clean white they turn that waste into productive efficiency.



Barreled Sunlight reflects the maximum of daylight from the saw-tooth roof in the Buffalo plant of the Curtiss Aeroplane & Motor Co., Inc. . . . supplements the fine lighting installation when daylight fails.

Over a quarter of a century ago, Barreled Sunlight revolutionized interior painting in every type of industrial plant—transformed light-killing, dingy gray walls to cheerful white that remained white. Since then, its leadership has not been challenged.

Barreled Sunlight Remains White Longest

A lustrous white, it is guaranteed to remain white longer than any other oil gloss paint or enamel, applied under the same conditions. (See full guarantee at right.)

Used with *any* lighting equipment, it delivers more "working" light, for a longer period of time, at a lower cost, than any other paint.

The booklet, "More Light with Lasting Cleanliness," contains more detailed information about Barreled Sunlight. Write for it to the U. S. Gutta Percha Paint Company, 1-F Dudley St., Providence, R. I. Branches or distributors in all principal cities. (For Pacific Coast, W. P. Fuller & Company.)

GUARANTEE

Barreled Sunlight, the Rice Process White, is guaranteed to remain white longer than any oil gloss paint or enamel, domestic or foreign, applied under the same conditions and according to our specifications. If it does not do so, we will give, free, enough Barreled Sunlight to repaint the job.

Barreled Reg. U. S. Sunlight Pat. Off.

Remains White...
Reflects Light...LONGEST

"Attention, squads 14, 17, 22!..."

Still another great service performed by this newspaper for Chicago was introducing the police radio call system. Tribune initiative, $40,000 of Tribune money and the Tribune radio station—WGN—were used to demonstrate the value of this modern method of fighting crime.

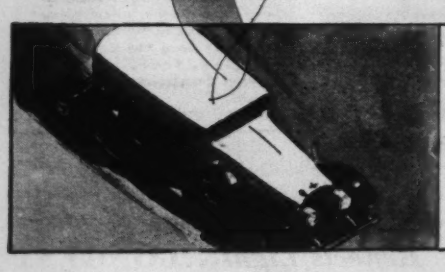
Realizing the value of a police radio call system, the Tribune introduced it in Chicago. Tribune engineers, without expense to the city, equipped all squad cars with specially designed radio receivers tuned to W-G-N's wave length.

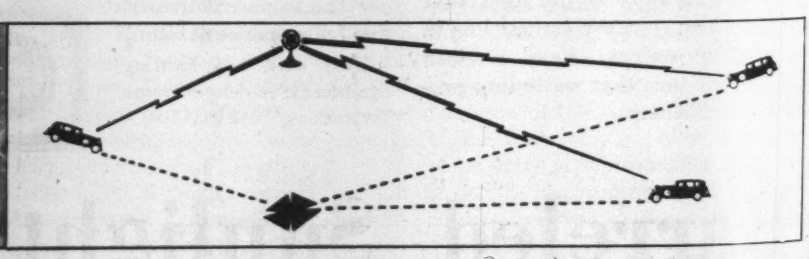
As a result of this pioneering demonstration that the system was effective, the city has installed three short wave transmitters and now operates them through the Police Department—"The longest, strongest police arm I have, thanks to the Tribune," says Police Commissioner Allman.

This public service is indicative of the Tribune's place in Chicago. From long experience Chicago people expect this newspaper to be the leader in public improvements, aggressively active in every field that affects the welfare of the community. And the Tribune does not disappoint them. It has held steadfast to its principles of serving the public for 85 years. It has become a daily force and friend in the lives of millions in Chicago and throughout the rich territory which looks to Chicago as its financial and economic capital.

This is why advertisers know that after all, "if you're not in the Tribune, you're not in Chicago!" A Tribune representative will gladly tell you how Buick, Bristol-Myers, Bon Ami, and others have proved it.

"If you're not in the Tribune, you're *not* in Chicago"





Year In, Year Out, We Spend About the Same for Clothes

7. The American Consumer Market —A Study by The Business Week

THE outstanding feature of the clothing item in the American consumer budget is the fact that the total value of wearing apparel bought in the American market has remained almost stationary during the 12 years from 1919 to 1930, while every other item has tended to increase. Even food consumption, though fairly stable for the 12-year period as a whole, showed a steady growth in the aggregate as well as on a per capita basis from 1921 to 1929; but clothing expenditures reveal a distinct downward trend since 1923. The average family spent no more for clothing in 1929 than in 1921, and in fact spent $153 less for what it wore than for transportation. Ever since 1923 transportation expenditure has run ahead of clothing expenditure, and since 1927 personal expenditures and savings also have outstripped those for wearing apparel. Although clothing was the third largest item in the national consumer budget in 1919, by 1929 it had fallen to sixth place.

Average Price Declining

This may seem puzzling in view of the fact that the population has increased some 14 millions since 1923, when the decline in clothing expenditure set in, and also because the quantity of apparel units produced has increased since 1923, as the production data of the Census show. Although in one sense it may be said that less clothing is being worn, at least by women, the only inferences to be drawn from these facts are that the average price per article of wearing apparel has been declining, through lower production costs, or that the actual cost of distribution has increased more than is commonly supposed, so that the allowance made for retail and wholesale margins in later years in this study is too low.

Peak in 1919-1920

The peak in wearing apparel expenditures, reached in 1919 and 1920 and not equalled since, can be explained partly by the extraordinary demand for civilian clothing following the war and partly by the inflated level of prices at that time.

The decline since 1923 probably reflects in part the tendency for unit price to diminish and in part an actual decrease in consumption of certain types of wearing apparel due to changes in customs and habit. It is well known, for example, that the automobile has influenced the consumption of shoes, and the trend toward closed cars has affected demand for other kinds of clothing as well.

The estimates presented in the table with this article are based mainly on the production data of the Census of Manufactures, except for the figures for custom tailoring, and on market data of the Fairchild Analytical Bureau. The estimates for intercensal years have been interpolated by use of various indexes of clothing and textile production and prices. Since the available information regarding exports and imports of wearing apparel is not reported or classified in the same way as the production data of the Census, adjustments for exports and imports are not made in the individual divisions of wearing apparel expenditures but have been grouped and applied to the total. Exports and imports of wearing apparel are relatively unimportant in comparison with the total of domestic consumption, but imports have tended to become larger in recent years, especially during the prosperity period, and have exceeded exports since 1925. This reflects mainly the increasing importation of shoes, gloves, cotton, silk and wool wearing apparel, handkerchiefs and hats.

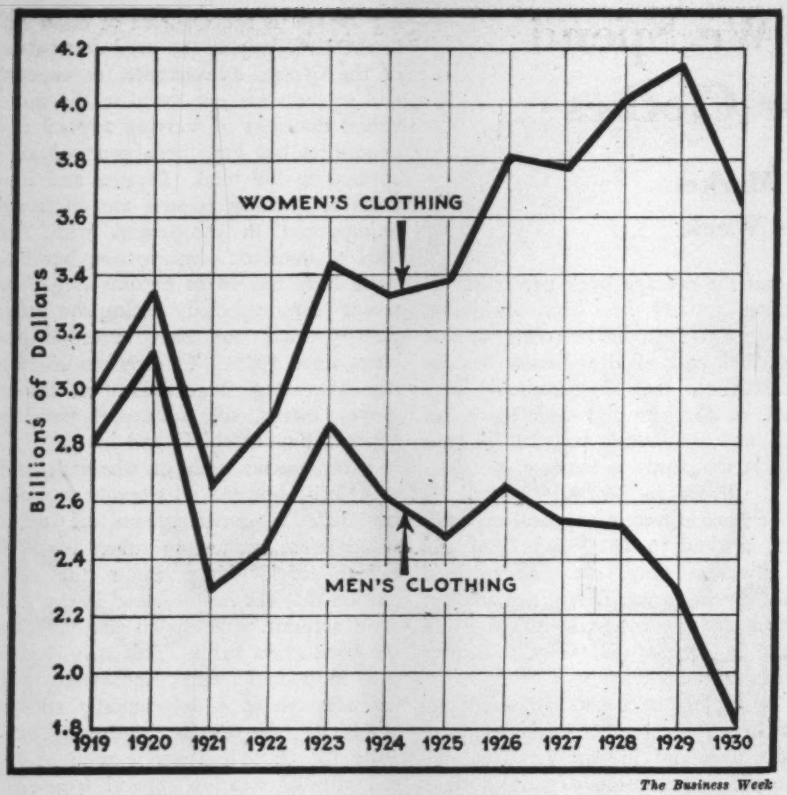
Every special study of wholesale and retail mark-ups and all attempts to work out detailed measurements of retail values from production values for particular articles have led to the conclusion that the simplest and in the end most accurate way was to add 50% to the production value. This may distort the individual items somewhat, but probably yields a substantially correct result for the totals. Nystrom's estimate for 1925 indicated a total of retail sales of wearing apparel somewhat below $10 billions, whith coincides closely with our own.

Classification Difficult

No completely satisfactory classification of clothing is possible for all purposes, and the best solution of the problem was to group the types as shown, into articles used especially by women and by men, footwear, and the rest. The women's clothing group includes dresses, suits, waists, coats, hosiery, fur goods, millinery, corsets, and allied feminine garments. Footwear includes both men's and women's boots and shoes and rubber footwear. Men's clothing includes coats, suits, work clothing, furnishings, shirts, collars, suspenders and garters, hats and caps. The remaining

Table 1: Retail Value of Wearing Apparel Bought by American Consumers
(In Millions)

	1919	1920	1921	1922	1923	1924	1925	1926	1927	1928	1929	1930
Women's Clothing	2,988	3,336	2,656	2,888	3,439	3,321	3,379	3,808	3,767	4,011	4,132	3,643
Men's Clothing	2,811	3,131	2,290	2,446	2,867	2,619	2,475	2,656	2,524	2,511	2,268	1,822
Footwear	2,908	2,152	1,442	1,495	1,698	1,603	1,562	1,679	1,604	1,662	1,584	1,346
Miscellaneous	922	1,076	681	739	890	835	818	850	797	840	818	697
Yardage Goods	979	1,065	796	926	1,093	1,110	977	771	403	525	302	412
Total	9,608	10,760	7,865	8,494	9,987	9,488	9,211	9,764	9,095	9,549	9,104	7,920
Adjustment for Exports and Imports	—212	—190	—13	—2	—11	—3	....	+26	+44	+35	+63	+50
Custom Tailoring	91	95	71	84	91	104	130	134	138	155	146	74
GRAND TOTAL	9,487	10,665	7,923	8,576	10,067	9,589	9,341	9,924	9,277	9,739	9,313	8,044



WHAT WE SPEND FOR CLOTHING—*The amount per family stays pretty much the same, because the rising expenditure for women's clothing is offset by the falling expenditure (and cost) for men's clothes*

major group of miscellaneous articles includes knit under- and outer-wear, gloves and mittens, handkerchiefs, notions, trimmings and buttons.

The outstanding feature of the classified figures is the dominant and relatively increasing importance of expenditures for women's apparel in the total. Women are clearly and to an increasing extent the clothing consumers in this country. In 1919 and 1920, possibly as a result of the post-war influence mentioned above, men's clothing expenditures were almost equal to women's, but by 1930 women's were twice as great as men's.

Differences by Sex

This contrast would be somewhat emphasized if the items in the other classifications of footwear and miscellaneous could be separated by sex of the consumer, because it is fairly clear that women spend more than men for shoes, underwear, gloves and handerchiefs, while notions and trimmings and yardage goods used for home dressmaking are almost exclusively women's apparel purchases, and more custom tailoring is done for women than for men.

The marked decline in expenditures for men's clothing in the strict sense, that is suits and coats, is striking. Here undoubtedly the style factor, to which reference was made in an earlier article, reflects itself, as well as the fact that the wearing qualities of men's clothing have improved in recent years. Other illustrations of similar influences are seen in the marked decline of expenditures for men's collars since the soft shirt era set in about 1925 or 1926, and the falling off in yardage goods used by consumers for home dressmaking during the prosperity years after 1924 or 1925. Another influence of a different kind is reflected in the fact that expenditures for custom tailoring vary with prosperity and depression and show a sharp decline in 1921 and 1930.

Man Proposes—And It May Work for Rayon

As the next step in a cooperative movement through which the rayon industry has recently brought about a relatively high degree of stabilization in its activities, all viscose plants are expected to shut down through June and possibly longer. Decision on this course to avoid piling up stocks has already been taken by Viscose Co., largest factor in the field, DuPont Rayon Co., and Delaware Rayon Co.

Textile World comments that such a shut-down would be the first practical demonstration that the output of man-made fibers, as distinguished from those dependent upon the vagaries of nature such as silk, wool and cotton, can be regulated and stabilized at the will of manufacturers. This theory has been argued but never before practiced because of lack of cooperation.

Viscose Sales Decline

Sales of viscose yarn have declined month by month. June is almost certain to be exceptionally quiet. Meanwhile, plants are operating at 45% capacity but still have 2 or 3 months supply of yarn on hand. A month's shut-down, reducing output nearly 11 million pounds, would place the manufacturers in an excellent position for the stronger market which is expected to develop in the fall.

Faced by similar conditions 2 years ago, the industry went ahead with production. Its sharp recollection of the resultant cut-throat selling and general demoralization urge it toward a firmer stand this year—as does its success in maintaining prices in the face of a sharp and persistent drop in sales since early spring.

Bank Closings Creep Up Again in May

THE decline in bank suspensions through the first quarter of the year, checked in April, was apparently checked again in May. Early figures on May closings compiled by the *American Banker* now total 67 for the first 26 days. The Federal Reserve Board's preliminary report of 68 in April was a sharp reversal of the drop from 342 in January to 123 in February to 45 in March.

Deposit liabilities involved in the April closings jumped to over $35 millions compared with $14 millions in March. Reopenings dwindled to 15 in April compared with 37 in March and 46 in February. The deposits of the 15 reopened banks totaled less than $6½ millions compared with more than $18 millions in both February and March.

Complete figures on April bank closings and reopenings serve to reverse comparisons based on preliminary releases which appeared in the May 25 issue of *The Business Week*.

HENRY FORD ON UNEMPLOYMENT

I HAVE always had to work, whether any one hired me or not. For the first forty years of my life, I was an employe. When not employed by others, I employed myself. I found very early that being out of hire was not necessarily being out of work. The first means that your employer has not found something for you to do; the second means that you are waiting until he does.

We nowadays think of work as something that others find for us to do, call us to do, and pay us to do. No doubt our industrial growth is largely responsible for that. We have accustomed men to think of work that way.

In my own case, I was able to find work for others as well as myself. Outside my family life, nothing has given me more satisfaction than to see jobs increase in number and in profit to the men who handle them. And beyond question, the jobs of the world today are more numerous and profitable in wages than they were even eighteen years ago.

But something entirely outside the workshops of the nation has affected this hired employment very seriously. The word "unemployment" has become one of the most dreadful words in the language. The condition itself has become the concern of every person in the country.

When this condition arrived, there were just three things to be done. The first, of course, was to maintain employment at the maximum by every means known to management. Employment—hire—was what the people were accustomed to; they preferred it; it was the immediate solution of the difficulty. In our plants we used every expedient to spread as much employment over as many employes as was possible. I don't believe in "make work"—the public pays for all unnecessary work—but there are times when the plight of others compels us to do the human thing even though it be but a makeshift; and I am obliged to admit that, like most manufacturers, we avoided layoffs by continuing work that good business judgment would have halted. All of our non-profit work was continued in full force and much of the shop work. There were always tens of thousands employed—the lowest point at Dearborn was 40,000—but there were always thousands unemployed or so meagerly employed, that the situation was far from desirable.

When all possible devices for providing employment have been used and fall short, there remains no alternative but self-help or charity.

I do not believe in routine charity. I think it a shameful thing that any man should have to stoop to take it, or give it. I do not include human helpfulness under the name of charity. My quarrel with charity is that it is neither helpful nor human. The charity of our cities is the most barbarous thing in our system, with the possible exception of our prisons. What we call charity is a modern substitute for being personally kind, personally concerned and personally involved in the work of helping others in difficulty. True charity is a much more costly effort than money-giving. Our donations too often purchase exemption from giving the only form of help that will drive the need for charity out of the land.

THE unemployed man is every one's concern, Henry Ford says — most of all the man's own concern. Being unemployed does not need to mean being out of work. There may be work even though one may not be hired to do it. Mr. Ford begins today a discussion of Employment, Charity and Self-Help as the three courses open to us in present conditions. He does not believe in routine charity because, he says, it is neither kind nor helpful. It does not get under the load or tackle the cause. He describes here a method he has followed. In the next issue of this publication he will discuss Self-Help.

Our own theory of helping people has been in operation for some years. We used to discuss it years ago—when no one could be persuaded to listen. Those who asked public attention to these matters were ridiculed by the very people who now call most loudly for some one to do something.

Our own work involves the usual emergency relief, hospitalization, adjustment of debt, with this addition—we help people to alter their affairs in common-sense accordance with changed conditions, and we have an understanding that all help received should be repaid in reasonable amounts in better times. Many families were not so badly off as they thought; they needed guidance in the management of their resources and opportunities. Human nature, of course, presented the usual problems. Relying on human sympathy many develop a spirit of professional indigence. But where co-operation is given, honest and self-respecting persons and families can usually be assisted to a condition which is much less distressing than they feared.

One of our responsibilities, voluntarily assumed—not because it was ours, but because there seemed to be no one else to assume it—was the care of a village of several hundred families whose condition was pretty low. Ordinarily a large welfare fund would have been needed to accomplish anything for these people. In this instance, we set the people at work cleaning up their homes and backyards, and then cleaning up the roads of their town, and then plowing up about 500 acres of vacant land around their houses. We abolished everything that savored of "handout" charity, opening instead a modern commissary where personal I O U's were accepted, and a garment-making school, and setting the cobblers and tailors of the community to work for their neighbors. We found the people heavily burdened with debt, and we acted informally as their agents in apportioning their income to straighten their affairs. Many families are now out of debt for the first time in years. There has appeared in this village not only a new spirit of confidence in life, but also a new sense of economic values, and an appreciation of economic independence which we feel will not soon be lost. None of these things could have been accomplished by paying out welfare funds after the orthodox manner. The only true charity for these people was somehow to get under their burdens with them and lend them the value of our experience to show them what can be done by people in their circumstances.

Our visiting staff in city work has personally handled thousands of cases in the manner above described. And while no one institution can shoulder all the burden, we feel that merely to mitigate present distress is not enough—we feel that thousands of families have been prepared for a better way of life when the wheels of activity begin turning again.

But there is still another way, a third way, so much better than the very best charitable endeavor that it simply forbids us to be satisfied with anything less. That is the way of Self-Help, which I shall discuss in the next issue of this publication.

Prepared and paid for by the Ford Motor Company as a contribution to public welfare.

European Tours Have Been Cut To Vacation Lengths and Prices

Foreign resorts, including the Soviet, will compete with domestic ones this year

DE LUXE passenger travel having become little more than a sweet memory, the shipping lines are going after the cheap tourist trade with ardor, low rates, and high-pressure advertising. A few years ago landlubbers marveled at cruise and tour rates cut to $10 a day; this summer there are tours to Europe and nearer landfalls for as low as $7 a day, including all expense ashore.

Ship companies are making a determined drive to capture the American vacation trade. To aid them (and their own tills) European hotel and restaurant owners have climbed down off their horses and high rates. There is every indication that this campaign will succeed. With ship rates cheaper than those of many beach or mountain resorts, the latter are bound to suffer. In addition to the lure of rest at rea, foreign travel, legal wassail, European countries with depreciated currencies are emphasizing the enhanced purchasing power of the gold dollar.

Lowest rates are for third class accommodations on ships. The waning of the old steerage business and a clever merchandising campaign which sold young people on this class of travel have removed the stigma from the low rating. Many of the formerly rich are going over tourist or third this summer. Booking agencies report that customers who used to buy tours at $35 a day now sign up for $11 a day or less.

Jockeyings with the transatlantic passenger rates disclose the weak spots. First, all rates were cut 20%. Recently, tourist and third class fares were revised. The cut on tourist now stands at 15%, that on third at 10%. Much of the resistance in the third class business is due to Europeans going home.

Dollar Volume Down

American Express and Cook's report an increase in the number of bookings over last year though dollar totals are 'way down. Executives figure the rise as indicating that many of the independent, local travel agencies are unable to continue and are passing along customers to the stronger organizations.

Greatest decline has been in the longer tours. Last year's tendency for business men to take short vacations will be intensified this year. This means as many, if not more, of the short cruises out of New York and other North Atlantic ports. And since many of the trips will be of vacation length, there seems to be a waning in the popularity of the week-end cruise. The French Line has turned from the 3-day trip, will concentrate on 6-day triangular cruises, New York–Halifax–Bermuda.

The Cunard is running about the same number of cruises as last year and over pretty much the same routes. It is hammering hard on its economy tours in conjunction with the big travel agencies. The Cunard part-payment plan (25% of voyage cost down, rest in instalments over a year) is being continued but will not apply to expenses ashore. The Hamburg-American and other lines are going strong for low-price tours.

White Collar Tours

International Mercantile Marine–Roosevelt–U. S. Lines are concentrating on their "White Collar Tours." They include London and Paris in an 18-day itinerary, minimum charge $168. Last year there were 8 "White Collar" sailings; this year there will be 16. The *Lapland* and *Belgenland* have been detached from the North Atlantic run to make cruises out of New York. The *Homeric* remains at home to cruise about the British Isles. I.M.M. reports a 6-fold increase in third class bookings. This compares with a 10% increase for tourist and third on all Conference lines. (The Conference estimates a 30% decline in first class passengers, a 30%–50% decrease in cabin class.)

These tours become problems in higher mathematics—and advertising. Executive pencils must figure whether shorter cruises are more profitable than longer ones on which bar profits offset expense of meals and fuel. Also promotion has come to play down whoopee features, to emphasize the desirability of women and children. (One ship had a distressful experience with a playful bunch of New York mobsters who took their vacations on board.)

Travel to the Soviet Union is a novelty attracting more than usual interest this year. Intourist, special Soviet travel bureau with offices in New York, Boston, Chicago, and Los Angeles, reports that bookings for trips to the Soviet Union this year have trebled 1931 figures. Moscow finds that 9,000 Americans visited the country last year.

Bookings, which can be made with any travel agency, are coming from all parts of the country but nearly 50% are from the East Coast metropolitan centers. More than 90 special tours have been arranged, 2 of which—in July and August—are special industrial trips which have been planned to meet the demand of manufacturers particularly interested in prospective business, or for executives who merely want to "see for themselves" what the Soviets are doing.

The "Cook's" of Russia

Since Intourist was organized in Moscow 3 years ago, travel in the Soviet Union has been systematically refined. This year all the dining cars on the Soviet railways are under Intourist supervision, 130 Lincoln automobiles from Detroit have been added to the organization's sight-seeing division, 2 special de luxe trains a week are operated on the 7000-mile Trans-Siberian railroad, and 20 hotels with a total of 4000 rooms have been built or

Blank & Stoller

TOVARISH RABINOVITCH—*One-time Chicago metal worker, he now heads the Soviet internal oil monopoly, is a member of the foreign trade commissariat, and one of the Russian representatives at the Socony-Vacuum conversations*

remodeled and are now operated by Intourist.

The New Moscow, at Moscow, has 426 rooms (300 with bath), 6 elevators, a telephone in every room, a glass-enclosed roof garden, and a restaurant with a capacity of 1600.

Like tourist travel everywhere else, visitors to the Soviet Union are traveling cheap. The 15-day tour featuring Leningrad and Moscow is most popular. Rates, second class, are about $10 a day. Some of the student groups are traveling "hard" (third class).

Japan's Silk Control Scheme Has a Long Way to Go

DESPITE the ineffectiveness of most production control plans which various governments have adopted to stabilize prices of major exports, Japan is once more talking curtailment schemes to aid the silk industry.

This week's announcement is not to be taken too seriously. It is merely a proposal which may be put before the Diet in its short session. It is unlikely that any bills will be passed before the regular session next winter. And it is entirely probable that this curtailment scheme may be voted down or radically changed.

Present discussion centers around a plan which embodies 3 main points: licensing of filatures (establishments where silk is unraveled from cocoons); government control of the issuing of silk cards (the containers on which the silk worm lays its eggs); and finally, formation of a government-controlled company to buy out middlemen and stabilize under a single great unit the business between the reeler and the exporter.

Too Many Individuals

Silk authorities in New York look on the first 2 points as constructive plans which might possibly be made effective. Japan's great silk business is notably in the hands of small units. Thousands of farmers buy egg cards annually, grow mulberry trees, and turn out varying quantities of cocoons more or less as a side issue to their normal business of farming. Because the volume of this individual production is so great, no plan which the government has yet devised to stabilize production and marketing of silk has been lastingly successful. Immediately prices are raised by buying up some of the export silk, farmers (who are worse off in Japan than in this country) have turned to the cultivation of silk worms.

Production control has been discussed in Japan for a long time but has never been enthusiastically received by the exporters because of their realization of its unpopularity on the all-important American market. Heretofore, price stabilization has been attempted by a system of government purchases of exportable silk when prices dropped.

The last attempt failed. Increasing production, in the face of rapidly falling consumption during the depression, and the falling off of silk prices along with all other major commodities, forced the government recently to accept an American bid to buy up the entire government-held stocks. The important Gerli interests bought Japan's entire surplus holdings. Tokyo lost heavily on the deal (*BW—May4'32*).

The Farm Problem

Talk in Tokyo now of production control is obviously an effort to get some new plan under way to prevent a recurrence of the condition which has depressed the market for more than a year. To put the silk reeling companies on a government licensing basis would give Tokyo some control over the amount of silk produced. To control, too, the issuing of egg cards would be to turn the small farmer from the business. The problem is to pass such a scheme, to control it effectively, and to provide something to take its place in the farmer's narrow range of income.

So many individuals and so many classes of people are importantly involved in the silk industry in Japan, that no change can certainly take place without long political bickering. While the government will probably be forced to do something soon to aid in industry and the farmer, progress through the Diet will be slow.

British Business Watches China's Ten-Year Plan

SUN YAT-SEN had a vision of industrializing China which he broadcast throughout the country in the early 1920's.

Last year, the Chinese Ministry of

John Hancock Series

"Too much family"

Protection against "too much family interest," often meaning mismanagement by heirs, is afforded by business life insurance, issued to firms or corporations according to needs, thus providing funds by which surviving partners or stockholders can buy out the family interest.

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"Let's write an advertisement like that," you say to your advertising manager, pointing out an unusually effective "ad."

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You like the appeal because it strikes home? Well, it ought to. It's the result of perhaps weeks of study and research. Weeks of visiting potential customers and asking them what would make them want to buy the product it features. That meant time and money—but it was worth it.

You like the copy? That's been written and rewritten countless times, by men with years of experience in combining reason with rhetoric. Even those men refused to go by their own judgment alone. They tested several types of copy on the client's prospects. Then they decided which was best to use.

You like the appearance of this advertisement? That's because every detail—type, layout, illustration—was carefully conceived, painstakingly executed with just one aim in mind; to create a complete unit that expressed the underlying tone of the advertisement and made you *want* to read it.

You saw this advertisement only because the agency's space buyer decided, after careful investigation, that you and the other readers of the particular publication are logical prospects for the product advertised. Even the choice of the magazine to be used was the result of study and thought, not just snap judgment.

The effectiveness of this advertisement doesn't end with its appearance in the magazine, either. The agency is showing the client's salesmen how to use it to induce distributors and dealers to stock and push the product.

Don't try to copy the other fellow's campaign. But take a hint from him, —get yourself a good advertising agency, too. Then your advertising will not only win favorable attention and an interested reading but—more important —it will help you make sales today.

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ENGLAND'S TARIFF WALLS

What Then?

RECENT economic trends have forced the issue . . . to make money in England, your merchandise must be "Made in England."

Tariff walls are rising. England's rejection of the gold standard puts America's exporting to England at increased disadvantage.

Yet, every trade difficulty is overcome by establishing a factory in England. We can help you find both building and location. Our files contain full information on wages, taxes, labor supply . . . floor plans and photographs.

This service is readily available at any one of our American offices and may be yours in *strict confidence* without obligation or expense. Simply indicate your interest . . . by letter or telephone.

LMS
GREAT BRITAIN

London, Midland & Scottish Railway of G. B.

[LONDON, MIDLAND & SCOTTISH CORPORATION]
Thomas A. Moffet, Vice-President—Freight Traffic
1 Broadway, New York City

Industries outlined to the Nanking government a 10-year program for industrializing the country. The Ministry estimated its plan would call for expenditures for machine equipment of $240 millions a year. The plan also provided for sending a number of experts to England to study factory organization methods.

This week, it is reported in London that some of the largest engineering companies in Great Britain are banding together to open up China industrially. Dorman, Long & Associates (China), Ltd., appear to be the prime movers, but such other names as Metropolitan-Vickers, Babcock & Wilcox, and John I. Thornycroft & Co., are associated with it.

Conditions are too uncertain in China now to be over-sanguine about the industrial prospects. But Britishers, as much as any other people, are aware of the remarkable resiliency of the country. Given a year without flood or war, China's 440 millions can make remarkable collective headway. The Nationalist government's control over the country may be weak but it has succeeded, now, longer than any recent government in maintaining itself in power. It has a program of development which might eventually compare with the Soviet's.

India paid Britain handsome returns in the earlier days of its development. Perhaps China can be made to take its place, but as a customer, not a colony. Evidently the heavy industries in Britain think the prospect is good.

Canadian Plant Climbs American Tariff Wall

CANADA is coming down to the United States to operate a plant inside the tariff wall, which is man-bites-dog news. Drewry & Sons, of St. Paul, Minn., is reported to have been bought by Drewrys, Ltd., of Winnipeg. Established by the same family years ago, these manufacturers of carbonated beverages until now have not been connected. Growing business south of the border caused the Canadian firm to acquire the St. Paul factory.

It is probably an isolated move. The United States tariff is high, but so many Canadian firms have a large volume of American capital that there is small likelihood of any significant movement to avoid the tariff.

Reviewing the movement in the other direction, Senator LaFollette stated recently that 145 branch plants have been established by American interests in Canada since the enactment of the Tariff Act of 1930. Of this total, 70 were located in Toronto, 41 in Quebec, 20 in Montreal, and the remainder scattered. Most of the companies which are migrating across the border are engaged in the manufacture of foodstuffs, textiles, paper products, iron and steel, non-ferrous metal products, chemicals and toilet products.

British Roads Combine For Operating Economies

GREAT Britain looked on the War as a sufficient emergency to warrent putting the railroads under government control. When it was over, the roads were returned to private control, but under 4 great systems. This was meant to remove minute, cantankerous competition but eliminate the possibility of monopoly.

Last week, 2 of the roads took the initiative in creating a pool of their receipts over the sections of their lines which are directly competitive. It wasn't a bold move. Dwindling revenues forced it. Competition from trucks is too keen to allow duplication of service much longer.

The London, Midland & Scottish, with 6,777 miles of trackage and the London & North Eastern with 6,294 miles started the move. Great Western joined later and it is probably only a matter of time until the Southern becomes a party to the agreement.

Chiefs of the 4 railway groups in Britain appealed to the Minister of Transport some months ago for legal aid in meeting "unfair" bus and truck competition. Under the Railways Act of 1921—which created the present 4 groups—a "standard revenue" was laid down for the systems. They have never earned the maximum. L. M. & S., for example, showed a total deficiency of actual to standard revenue of £22 millions in the last 4 years. The L. N. E. deficiency was £14 millions. Bus and truck lines in the meantime have flourished and this is due, according to the railroads, in no small way to the fact that road upkeep is left to the taxpayer.

The new plan does not go so far as the wartime emergency for the railroads are not giving up individual management. What may come eventually depends on the extent to which the depression forces the 4 systems to interlock their operating schedules for the sake of economy, and to resort to national control as a way out of the long period of declining revenues.

Business Abroad—Swift Survey Of the Week's Developments

Plans for a conference at London "to revive world trade" have given new hope to business this week. Lausanne may meet, may be postponed. Other problems than reparations have become more immediate—among them international currency and tariff adjustments. . . . All Europe is stunned by Germany's turn to militarism, hopes it is merely an interim regime, knows it is the end of a subservient policy. . . . France is nervous. . . . Germany is still too surprised to reflect final reactions. . . . Italy is steady. . . . Britain is trying to offer thoughtful leadership, really has internal worries of her own. . . . Poland may regain French cooperation. . . . Rumania and Greece are increasingly hard pressed. . . . Germany, and plans for the London conference, are keys to the immediate future.

Europe

EUROPEAN NEWS BUREAU (*Cable*)—In spite of the fresh unsettlement and greater tension throughout Europe this week, there are a few scattered favorable developments.

The resignation of Chancellor Bruening in Germany, for instance, may cause the Lausanne conference to be postponed. At least, if it meets, it is reduced now to a mere perfunctory get-together to hear Germany declare that she has made her last reparations payments.

But, counteracting this unfavorable news, there is the possibility, rapidly taking shape, of a world economic conference to be invited to London, to be convened, possibly, late in June, and to be devoted primarily to consideration of currencies and, it is hoped, tariffs.

Unfortunate as it is that the problem of reparations and debts has not been settled, these currency and tariff problems have come to be far more immediate and practical issues. Reparations, after all, cannot be satisfactorily dealt with until governments with popular mandates to negotiate compromises come into power in Germany, France, and the United States. So, if a London conference with the promise of greater immediate benefits matures, not only would it rekindle, but it would increase, hopes which were first pinned to Lausanne. It is possible that at London the turning point may be reached.

Commodities sagged last week, except tin which recovered on the Bolivian acceptance of the new restriction scheme. Malaya has not yet given formal assent to the plan but tin markets confidently expect it. Optimism returned only when the United States announced final agreement on the budget.

Too Much Money

Bonds have weakened; stocks are at new lows following the spring rise. There is a plethora of money. Lenders are not lending, and borrowers are not borrowing because of existing conditions and current uncertainties.

The spring revival which has been sporadically evident in various centers is fast coming to an end though there are evidences that there is no small volume of latent business if it could overcome the restrictions which tariffs and foreign exchange restrictions have piled up. Unemployment for Europe as a whole was higher in May than for any month yet recorded.

Austria is still trying to postpone the inevitable transfer moratorium in the hope that last minute assistance may be voted by the conference of experts in Paris. Neutral observers think the prospects are most improbable.

France Turns Back Poland

Poland's moves toward a transfer moratorium are emphatically denied in official circles, but *The Business Week's* Warsaw correspondent states definitely that a transfer moratorium, accompanied by exchange control, is under serious consideration, and that negotiations are proceeding between the Ministry of Finance and representatives of the French government. Though British and American creditors are principally threatened, the fact that officials have turned to the French for aid indicates a sudden shift back toward Franco-Polish rapprochement because of recently-engendered fears over the situation in Germany. The friction in the last few weeks between Poland and Germany over Danzig and the Corridor, followed now by the threatening ascendency in Germany of the military group, may draw France and Poland together again in time to renew their alliance on June 20.

The Rumanian government, faced with a deficit exceeding $40 millions, and with the impossibility of floating a foreign loan, has resigned. From soldiers to teachers, salaries are in arrears. In Greece, the situation is growing more serious. More than half the total revenue is required now for service on the foreign debt.

Reaction throughout Europe to the sudden developments in Germany is one of double amazement, not only that President Hindenburg demanded the resignation of Chancellor Bruening—which is compared with Kaiser Wilhelm's discharge of Bismarck—but at the appointment of Von Papen, who has no wide prestige in Germany and obviously is offensive to the United States. Hindenburg, until now, has been the rock of domestic and foreign confidence, evidently has succumbed to the pressure of the militarists. Behind Von Papen is the powerful General Von Schleicher, and the Reichswehr.

Germany's Future

Almost certainly only 2 courses are ahead for Germany. The one is new elections to the Reichstag, when the Nazis believe they could bring in a majority. The other is a military dictatorship. Either course increases the probability of repudiation of reparations and domestic inflation along with adventurous foreign policies. But, barring accidents, no immediate crisis is expected.

France

France worried by German political shift just as domestic situation was clearing. . . . Conditions no better. . . . American quotas enlarged.

PARIS (*Wireless*)—Domestic politics are clearing. Almost certainly the new government will combine Herriot and Tardieu interests. The sudden change in government in Germany, however, and the radical return to the old militarist group has upset Paris. French policy is likely to reflect this new move soon. Obviously Germany is determined to be more firm. France can do nothing but follow the same policy. It is likely that relations with Poland, which have been cooling as Bruening courted French hopes for rapprochement, will become more cordial.

Americans are cheered by the news that Paris and Washington have reached an agreement that quotas, which have cut United States imports more than those from other countries, are to be placed on a most-favored-nation basis.

Germany

Business upset by new political uncertainties. . . . New policies expected from national government in which are representatives favoring capital and important agrarian interests.

BERLIN (*Cable*)—Germany's cabinet fell this week because President von Hindenburg refused to accede to Chancellor Bruening's demand that the large estates of the landed gentry be parcelled out among the unemployed.

Colonel von Papen, one-time ambassador to Washington and expelled from the United States because of alleged seditious activities when the United States was still neutral, has been called to form a new national cabinet.

The Hitlerites refused to try to form a government. They are unwilling to compromise with any other party in order to gain a majority in the Reichstag. Outside they are a powerful minority. Both at home and abroad, the von Papen government is looked upon as an interim government. Probably there will be new elections before the summer is over, in which case the Hitlerites are likely to gain a clear majority in the Reichstag. Or there might be a military dictatorship. Certainly it is thoroughly understood in Germany that Colonel von Papen is the straw man for the powerful General Kurt von Schleicher.

The principal repercussions on business of the sudden shift in the government are: (1) Bruening's plans for balancing the budget are upset and the whole matter is delayed; (2) the decline in bond prices and the sharp rise in stock prices suggest an incipient inflation panic; (3) strongly representing industry and agrarian interests, the cabinet is likely to start a new drive for wage cuts.

International News

INDUSTRIAL SIBERIA—*Out near the Mongolian border, at Kuznetz, are the Soviet Union's greatest coal reserves. Here 45 coke ovens and 2 giant blast furnaces are producing. Ore comes from Magnitogorsk, 1,200 miles away in the Ural mountains. Some coal goes to Magnitogorsk for coking. Problem: to maintain adequate transport between the 2 giant projects*

Great Britain

Business unsettled by political upset in Germany, by rumors of pending collapse of domestic companies, by the prospect of larger taxes.

LONDON (*Cable*)—With Lausanne only 2 weeks away and with almost no hope of extending its agenda to include the all-important problems of currencies and tariffs, London has pulled itself together after the shock of the return to the old militarist leaders in Germany and invited the world to attend an international economic conference. Reparations are serious, but more immediate now is the need of opening strangled trade channels. It must be done soon. Britain is taking the initiative. With reparations barred from the discussions, the United States has agreed to take part. Business is transferring to the London conference all the hope that has attached to Lausanne.

Domestic conditions have been unsettled all week. Stocks are touching new lows on rumors of the near collapse of important insurance interests; the fear of higher taxes in a supplementary budget; the likelihood of a strike among the weavers in the cotton textile industry; the possibility of a stoppage in the coal mines unless workers and operators come to some agreement; and finally the confusion over the suspension of an important Liverpool cotton broker.

Italy

Local factors relatively good though well below last year's status. . . . Trade balance less favorable. . . . Business sentiment favors devalorization of the lira.

MILAN (*Cable*)—The downward trend of business conditions is becoming more apparent, due not so much to local factors as to a reflection of the intensified general depression. Crops are off to a good start, but industrial activity is sagging heavily, while retail sales, as measured by the turnover of "La Rinascente," Italy's largest department store, are running 25% below last year. Unemployment still exceeds the 1-million mark and, though 5% below March, is 50% above April, 1931.

Larger Gold Reserve

Particular cause for concern is the deterioration appearing in the Italian balance of trade. This is due to difficulties in maintaining exports and in effecting collections in the face of ever-growing trade and exchange restrictions abroad.

On the other hand, and in spite of a larger trade deficit, the multiplicity of factors which together establish Italy's balance of payments seem to have taken a turn for the better since, for the first time in many months, the Bank of Italy shows a modest increase in its reserves of gold and foreign exchange.

A development of distinct significance in that it may well spread to other countries is the growth of business sentiment favoring a devalorization of the lira as a means of restoring equi-

librium between price levels and the level of fixed charges. So far the government remains opposed; has launched instead a $134-million public works program notwithstanding the growing fiscal deficit. Building industries reflect some benefit from this program. On the other hand, the cost of financing both public works and the government deficit is primarily responsible for the credit stringency which severely hampers industry as a whole.

Latin America

Ecuador and Paraguay exchange restrictions tighten. . . . Prices climb in Chile as result of shortage of commodities and imported manufactures. . . . Argentina aids American refrigerator exhibitors who plan to show at Buenos Aires in August.

PARAGUAY and Ecuador were added this week to the list of Latin American countries from which it is increasingly difficult to get dollar exchange.

In the case of Paraguay, the difficulty grows out of a decision of the Argentine Exchange Control Commission to discontinue allocating 5,000 gold pesos daily for use by Paraguayan banks. Exchange stringency in the Argentine is the reason for the move. Bankers predict that the decision will suspend virtually all imports of American and European goods into Paraguay until the restriction is removed.

Ecuador Collections Slow

In Ecuador, collections are being paid in local currency and held by the banks until foreign exchange is parcelled out. From Guayaquil it is reported that foreign exchange is still sufficient to meet present demands. It is admitted, however, that firms importing prime necessities are given preferred treatment at the bank and even they are finding it necessary to wait as long as 10 days for dollars. American exporters are urged by the consuls in Ecuador to give careful attention to all requests for credit and make definite arrangements in advance for the terms of payment.

Commodities important in the trade of Latin America were affected by developments during the week. Raw sugar prices sagged only slightly but with the end of the major shipments from Puerto Rico, and with the probability that Philippine business will soon slacken, Cuba expects soon to feel new demands. Sugar brokers estimate that the future of the 1932 sugar market will be decided during June. Price movements will depend on 2 factors. If the warm weather steps up demand for refined sugar, the result will naturally be favorable. The market will also depend on the attitude of Cuban producers, who at present show every indication of holding out for higher prices than current levels.

The New York coffee market was affected during the week by a brief wave of profit-taking which sent prices down. In the last 25 trading sessions, however, there have been 20 days of advancing prices and 5 days of declining prices. Since the major bull trend started last October, the Rio contracts have advanced approximately 235 points and the Santos contracts have advanced about 270 points.

The probability that oil, copper, and lumber duties are to be included in the United States budget bill when finally passed has spread gloom in Latin America. Mexico, Venezuela, Peru and Chile are particularly affected (*BW—Jun1'32*).

Refrigeration Show

Word has just been received from Buenos Aires that the Argentine government will admit duty free all literature brought into the country for distribution by foreign manufacturers exhibiting at the Sixth International Congress of Refrigeration which is to be held at Buenos Aires in August (*BW—Jun1'32*). Exhibits will be admitted for only a small deposit, which will be refunded unless the items are sold in the Argentine. An official representative has arrived in the United States from the Argentine to consult with American refrigeration manufacturers who wish to attend the conference and exhibit their products.

Far East

Japanese Diet in special session considers war expenses, higher tariffs, bank law amendment, and farm relief. . . . Japanese textile mills return profit. . . . China quiet; Japanese evacuate Shanghai. . . . Manchuria still troubled.

FOUR important measures face the Japanese Diet, which reconvened June 1.

The first is the voting of the all-important provisions for financing the Manchuria campaigns which, to date, are reported to have cost Tokyo more than $61 millions. Bankers and taxpayers are not unaware that these expenses will be greatly multiplied in the next few weeks if the guerrilla warfare in northern Manchuria between irregular Chinese forces and Japanese outposts does not soon come to an end.

Second in importance to the country is the decision that the bank law must be amended to allow an increase in the fiduciary issue. The Seiyukai party was pledged to a policy of mild inflation and the new coalition government is expected to carry on this plan.

Japanese Farm Relief

A third issue to face the Diet in the special 2-week session is the distress among the farmers. The plan now is to provide $16 millions for relief from mortgages and loans. It is doubtful if this can go far enough. Japanese farmers are in desperate circumstances (page 21).

Foreign trade will be affected by the fourth item. Tariffs, where specific, are to be increased 35% to compensate for the depreciation of the yen. Since December, when the country went off the gold standard, products from India, and to a lesser extent China, have made their way into the Japanese market due to the lower value of the yen. The new adjustment of specific duties is aimed to adjust this situation.

Despite the severity of the depression during the last year, Japanese stocks paid a 4% profit for the last half of 1931, compared with a 6% profit in the first half of the year. More than 1,350 companies reported. The textile industry, except silk, has been especially fortunate. Only 2 of 61 companies in the cotton textile division failed to show a profit in the last half of the year, though 23 passed their dividends. The average dividend in this business was 9.4%.

Silk Still Slumps

The silk industry is completely discouraged. Prices have fallen to new lows. Speculative iron and steel imports continue. The South Manchuria Railroad is still making efforts to increase its working capital for expansion in Manchuria.

Conditions in China have changed but little. Shanghai is cheered by the withdrawal of the last Japanese troops except the small garrison always stationed there. Trade is likely to show signs of speedier recovery now that the uncertainty of the situation is removed. Mills are resuming activity.

In Manchuria, conditions have not improved. Business cannot be expected to return to normal there until the Japanese punitive expedition succeeds or withdraws from the north, and until there is wider reason to believe that Japan and Russia can avoid coming to blows.

The Figures of the Week And What They Mean

The general trend of the major business indicators remains unchanged. . . . Steel activity continues to ebb in spite of the greater motor output of Ford. . . . Construction contracts show a gratifying upward trend due principally to the expansion of public works programs. . . . Residential building gives no hint of having turned any corners. . . . Electric power production and freight carloadings still sag, although miscellaneous shipments managed to oppose the downward trend. . . . Check payments remain in low ground, particularly in New York City, and commercial loans are still being contracted.

STEEL consumers are apparently digging in for a quiet summer with the exception of Ford, and possibly one or two other motor manufacturers. The effect may be seen in the gradually declining operating rate of the steel industry, which now touches 23% of capacity compared with 24% the preceding week and 25% two weeks ago. On an adjusted basis, this rate is equal to 34% of normal.

The inability of the steel industry to hold its operations at a quarter of its capacity is disappointing. The field is being left clear for Ford, whose orders for steel and parts create occasional oases of stimulated activity in a desert of stagnation. Producers of medium and high-priced cars are entering the summer shutdown period, while other low price manufacturers are holding production in low gear. Ford is rapidly regaining his former high proportion of output, which in June is expected to reach 50%.

According to *Steel*, a number of manufacturers are attempting to enter the low priced field in competition with Ford. Chrysler and Hudson-Essex are believed to have fours ready stripped of all gadgets, while General Motors is said to be contemplating a low priced six and eight to compete with the Ford eight cylinder car.

Official figures on April production recently released show a 22% gain in total output of vehicles over March for the United States and Canada. Output of 154,823 units compares with 127,277 in March and represents the largest month since last August. But the record for the first 4 months is still not enviable, since only 503,734 vehicles were built in the United States against 1,005,132 in 1931, a decline of 50%.

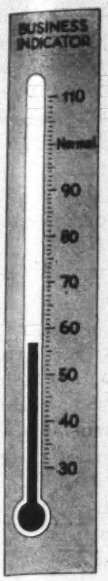
Structural Steel

Structural steel bookings are reported to be at the peak of the year to date, chiefly under the impetus of federal projects. Railroads continue to buy only moderate quantities of steel, allowing equipment to stand unrepaired. More than 10% of the freight cars and 15% of the locomotives of Class I railroads were reported in need of repairs at the beginning of May.

Other lines tell a similar story. Pipe and tube demand remains at a low level. The prospects for tin plate appear to be petering out rather than improving. Smaller crops, voluntary contractions of output and meager lines of credit are doing their parts in reducing demand.

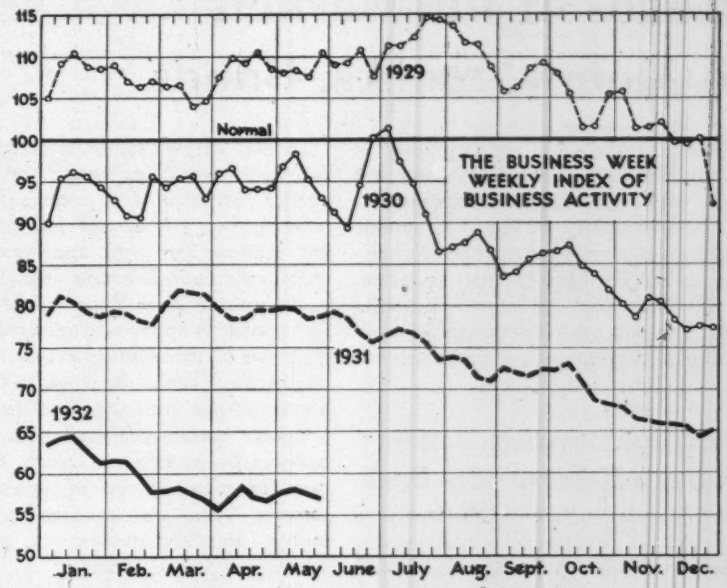
THE BUSINESS WEEK WEEKLY INDEX OF BUSINESS ACTIVITY	*Latest Week*	*Preceding Week*	*Year Ago*	*Five-Year Average (1927-1931)*
	*56.8	†57.1	78.8	.....
PRODUCTION				
Steel Ingot Operation (% of capacity)	23	24	41	73
Building Contracts (F. W. Dodge, daily average in thousands, 4 weeks basis)	$5,095	$4,882	$12,591	$20,442
Bituminous Coal (daily average, 1,000 tons)	*715	†716	1,105	1,376
Electric Power (millions K.W.H.)	1,425	1,436	1,602	1,562
TRADE				
Total Carloadings (daily average, 1,000 cars)	[86	86	126	160
Miscellaneous and L.C.L. Carloadings (daily average, 1,000 cars)	62	62	87	104
Check Payments (outside N. Y. City, millions)	$2,680	$3,033	$4,090	$5,222
Money in Circulation (daily average, millions)	$5,439	$5,459	$4,669	$4,700
PRICES (*Average for the Week*)				
Wheat (No. 2, hard winter, Kansas City, bu.)	$.57	$.53	$.73	$1.13
Cotton (middling, New York, lb.)	$.054	$.058	$.086	$.163
Iron and Steel (STEEL composite, ton)	$29.57	$29.58	$31.03	$34.73
Copper (electrolytic, f.o.b. refinery, lb.)	$.051	$.051	$.081	$.131
All Commodities (Fisher's Index, 1926=100)	60.2	61.1	70.3	89.0
FINANCE				
Total Federal Reserve Credit Outstanding (daily average, millions)	$2,034	$1,971	$899	$1,170
Total Loans and Investments, Federal Reserve reporting member banks (millions)	$18,994	$19,037	$22,598	$21,949
Commercial Loans, Federal Reserve reporting member banks (millions)	$6,678	$6,711	$7,885	$8,581
Security Loans, Federal Reserve reporting member banks (millions)	$4,910	$4,950	$6,928	$7,100
Brokers' Loans, N. Y. Federal Reserve reporting member banks (millions)	$393	$414	$1,574	$3,664
Stock Prices (average 100 stocks, Herald-Tribune)	$76.93	$78.82	$114.66	$151.83
Bond Prices (Dow, Jones, average 40 bonds)	$67.25	$70.23	$94.28	$95.71
Interest Rates—Call Loans (daily average, renewal)	2.5%	2.5%	1.5%	4.2%
Interest Rates—Prime Commercial Paper (4-6 months)	2¾-3%	2¾-3½%	2-2½%	4.1%
Business Failures (Dun, number)	708	720	528	475

*Preliminary †Revised



The Index

The weekly index of general business activity, first of its kind, is compiled by *The Business Week* from 8 series of weekly figures —steel mill operations, building contracts, bituminous coal production, electric power output, non-bulk carloadings, check payments outside New York, commercial loans of reporting Federal Reserve member banks, and currency in circulation. It shows the current level of the average daily physical volume of business as compared with the normal for the season and the year. Normal, represented by 100, is what the current volume of general business activity should be if the usual seasonal changes and year-to-year growth had occurred. For further explanation see *The Business Week*, May 7, 1930, p. 39.



Finished steel prices seem to be holding, and talk continues of higher prices for the third quarter even though the volume to sustain advanced prices is not apparent. Pig iron prices declined, serving as an inducement for scrap producers to hold off their offerings and to consider a summer shutdown.

Construction contracts continue to push upward with the aid of public works and utility awards. During the first 18 business days of May, construction contracts to the amount of $95.7 millions were awarded, equal to a 13.7% gain over the daily average of April, but a 56.6% loss from May, 1931. The adjusted index for the week ending May 20 has now reached 26% of normal compared with 25% the preceding week and 24% two weeks ago.

Almost half of this volume can be laid to public works and utility contracts which now total $46.9 millions. On a daily average basis, these contracts show a gain of more than 43% over April and fall only 40% below a year ago.

Residential Building

Non-residential building activity has shown sufficient improvement to reduce the 15% lag of the first half of May behind the daily average of April to less than 4% at the end of 3 weeks. The value of contracts through May 21 stood at $30.3 millions. Only $18.6 millions of residential contracts were awarded through May 21, which has widened the spread from the daily rate of April to more than 7%.

The downward trend in bituminous coal production has been flattening out in the past 3 weeks. For the week of May 21, the adjusted index stands at 39% of normal compared with 40% the preceding week.

Electric power production continues its downward trend for the week ending May 28. The adjusted index lost one point, standing now at 71% of normal. Comparison with a year ago is not on a strictly comparable basis, since the holiday influence affected the figures of a year ago while the influence this year will be apparent in next week's figures.

Carloadings Are Down

Instead of the usual bulge in carloadings for the week preceding the Decoration Day holiday, a decline continues to draw this series into new low ground. The largest decline for the week is reported in coal loadings, while gains in ore, coke, and miscellaneous freight partially offset other losses. The gain in the last mentioned classification was sufficient to outweigh the loss in merchandise less than carlot freight, but the adjusted index remains unchanged at 54% of normal.

The volume of check payments in the 140 cities outside of New York moved under the $3-billion line for the sixth time this year. The decline from the preceding week amounted to 11.6%. The adjusted index for the week ending May 25 declined one point to 63% of normal. In New York City a steady decline for 3 successive weeks has occurred instead of the usual semi-monthly fluctuation. Undoubtedly the sagging stock and bond markets have contributed to this slump.

The daily average volume of currency circulation for the week ending May 28 showed a decline contrary to the usual increase which holiday weekends ordinarily bring forth. The index adjusted for a further decline in the latest cost of living index dropped 2 points to 48% above normal. Bank suspensions for the week of May 26 show an upward trend with 21 closings against 12 the preceding week.

The contraction in commercial loans reveals no letup, but the further withering away of commodity prices used to reduce these dollar figures to a volume basis has lifted the adjusted index to 8% above normal. Banks are becoming more emphatic in disclaiming responsibility for the declines in loans, stating that the demand for funds from responsible borrowers has been shrinking.

Commodity Prices

The widespread lack of confidence in practically every line of activity finds ample reflection in the commodity markets. Very few of the major commodities showed any strength. Among the few that showed slight gains are zinc, silver, wool. Lead was steady, tin, down, and copper irregular.

The bullish reports on the grain crops failed to stimulate the market for wheat and corn, which have been moving into low ground. Cotton, silk, hogs, sugar, hides, cocoa, rubber, coffee, and cattle were all weak, with new lows established in rubber, and silk.

Trends of the Markets In Money, Stocks, Bonds

Stocks touch 20th century lows at climax of record liquidation wave but rally with Washington budget news. . . . Bond market, weakened by drastic decline and upset by European anxieties, awaits banking support program. . . . Banking position improves despite gold exports and relaxation of Federal Reserve expansion pressure.

Banking Situation Better Though Reserve Lies Back

THE financial picture in the last week of May was overcast by a panicky condition of security markets and public psychology due to anxiety over the federal fiscal situation, the political upset in Germany, rapid gold outflow, and intensified business recession.

Bank suspensions increased in the latter part of the month, but there was no definite evidence of renewed domestic hoarding. Dollar exchange values continued acutely weak against most European currencies, especially for forward exchange. Gold exports increased to the highest level since last fall, and were limited mainly by shipping and insurance facilities.

Federal Reserve efforts to force member bank credit expansion by open-market purchases of governments slackened further. Purchases fell to about $57 millions per week and were more widely distributed among the Reserve banks outside New York. Federal Reserve policy is apparently adjusted to the objective of maintaining excess reserves of member banks between $200 and $300 millions until the situation clears.

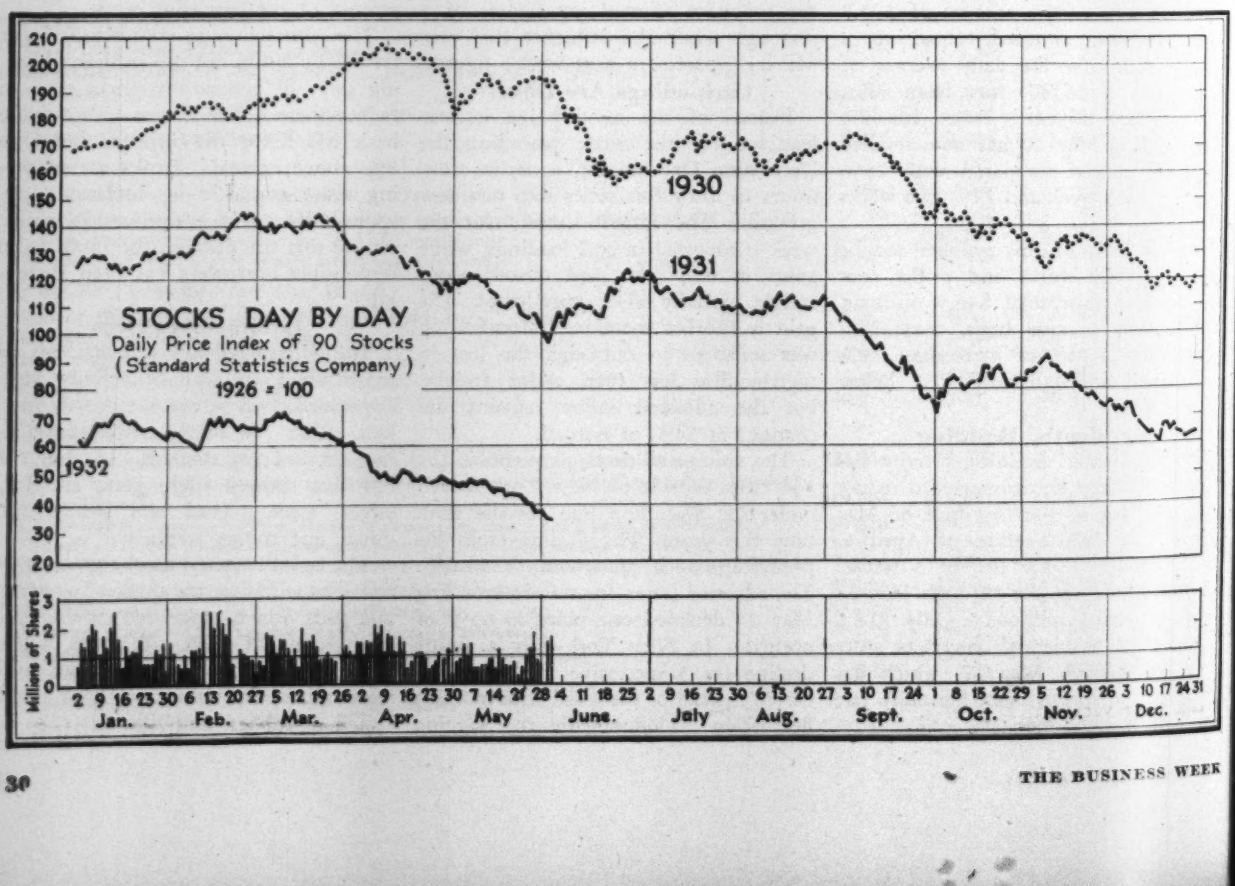
Local banker-industrial committees temporarily suspended efforts to find ways to stimulate use of excess bank reserves until the congressional and budget-balancing situation was relieved, which now seems closer.

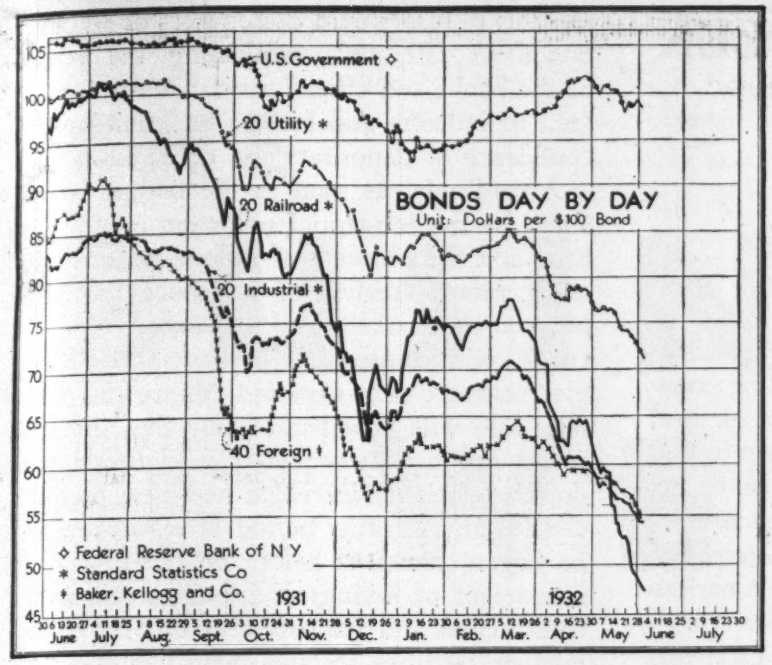
Paradoxically, in spite of this panicky atmosphere, the banking position seems to have improved. The decline in loans and investments of weekly reporting member banks for the week ended May 25 was only $43 millions, less than in preceding weeks. Deposits rose $23 millions, reserve balances $35 millions, and borrowings from the Federal Reserve fell further by $2 millions. Most important, the member banks bought $30 millions of other than government securities, distinct evidence of some effort toward credit expansion.

The outstanding feature of the credit and money market situation is the extreme abundance of liquid funds and ease of short-term money rates, contrasting with the scarcity and high cost of long-term credit. This condition is a world-wide symptom of collapse of investment confidence and of drastic debt liquidation, but is most acute in this country. Yields on short-term United States securities have declined to the lowest level on record, in the earliest maturities down to zero or a minus quantity, so that investors are actually paying for the privilege of putting their money into this form of safe and liquid investment. In contrast, high-grade industrial bonds are selling at prices yielding as high as 20%, and premier municipals like New York above 5½%. Call money rates have been nominally pegged at the Stock Exchange post at 2½% since January, but outside funds are available at as low as 1% with little demand, while time loans eased to 1½% at the month-end.

Brokers' Early Vacations Show Market Is Hopeful

To the end of May stock prices held the almost continuous downward course they have pursued during the past 3 months, strengthening somewhat on more reassuring Washington news.





The decline since Mar. 8 has been the most drastic of all the 7 successive waves of liquidation during the depression. The average prices of leading stocks have been cut nearly in half in this 3-month period and show a decline of about 87% below the 1929 peak. For the Dow-Jones industrial averages this latest phase of deflation carried quotations back to 1904 levels, though other averages remained more nearly within the memory of this trading generation. Disregarding split-ups, prices of some of the market leaders like Steel and A. T. & T. reached figures reminiscent of 1907 lows.

In this latest recession the weakness was spread wide over the market with only a moderate volume of trading, most of the so-called depression-proof stocks succumbing along with the rest to the increasing stress of necessitous liquidation.

Even support from the usual scattering of small-lot buyers and bargain hunters was lacking and, in some cases, the tape served as a sort of silent auction salesman, with bid and asking prices far apart and bargains struck only after considerable haggling.

General Electric and other important dividend reductions were interpreted as unfavorable business forecasts and intensified the selling pressure. Some sustained relief from it is apparently expected after Congress adjourns and the conventions are over, since brokerage house employees are being asked to take their vacations before July 4.

Bond Market Is Tied Up In the Fiscal Tangle

A DEMORALIZED bond market suffered its most precipitous collapse of the depression during the past week, rallying only after swift Senate action on the tax bill steadied investment sentiment somewhat. Such support as seemed to be forthcoming from a fairly large volume of bank buying during the week ended May 25 was ineffective against the tide of liquidation that swept the market as the fiscal snarl in Congress came to its climax and the resignation of the Bruening cabinet in Germany raised further expectations of European trouble.

In the general cracking of confidence coming after the prolonged period of steep and practically continuous decline since early March, the market developed the usual air-holes accompanying complete absence of buying offers in some issues and wide gaps between bid and asked prices. Receivership uncertainties in the case of the Cotton Belt affected railroad issues; anxiety about payment of June interest and the European political outlook weakened foreign bonds. Even the United States long-term issues receded under the strain, and the municipal bond market, fairly active in recent weeks, was brought to a standstill, with New York City 4½% bonds of 1981 offered at 78.

May brought forth only about $80 millions of new security issues, all bonds mostly state and municipal.

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THE BUSINESS WEEK

The Journal of Business News and Interpretation

June 8, 1932

The Only Way

DURING the past week, discussion of the advisability of large federal borrowing for an extensive public works program and efforts of local committees of bankers and business men to find ways of putting available private credit resources to work have made evident the Administration's view regarding the road to recovery, and the course of action indicated for American business and the public. It is as follows:

The federal budget for the coming fiscal year must be balanced by reducing expenditures and increasing revenues as much as may be required. Further borrowing must be avoided, and above all there must be no borrowing for further expenditure or investment in anything but self-sustaining or self-liquidating projects. Other governmental activities and outlays must be reduced henceforth so far as possible, but certainly not increased. This applies to state and local governments as well. Increased taxes temporarily necessary to balance the budget should be such as will not discourage saving or new investment, and must therefore be spread more broadly upon consumers. For this purpose a general manufacturers' excise tax offers the best and most expeditious solution of the revenue problem.

The essential reason for these rules of recovery is that unemployment will not diminish until more money or credit is invested in private enterprise. Credit is available as a result of Administration and Federal Reserve efforts so far made, but it will not flow into new private enterprise until confidence is restored—that is, until there is an improved prospect of profit from the investment. Such a prospect is impossible until long-term capital or credit can be obtained more cheaply, and this cannot be done so long as the governments are borrowing it on a large scale or taxing it heavily. Moreover, continued government borrowing would make prices of government securities decline, and this in turn would cause prices of all other bonds to fall, thus weakening the power of the banks and other financial institutions to lend to industry and further undermining the confidence of depositors and of investors.

Accordingly, as soon as the budget is balanced by the substantial reduction in expenditures and the adoption of general consumption taxes, prompt revival of investment, recovery of security markets and expansion of bank credit, with consequent improvement of employment, are to be expected. Money and credit now idle will flow back freely into industry, plants and machinery will be modernized, productive efficiency increased and new products developed. Another period of expansion will be begun, based as before on the process of investment of savings and bank credit in the construction and improvement of private productive facilities through which employment and payrolls are increased.

In order to start this process, now at a standstill, it may be necessary and justifiable, as the President suggests, for the government to supply a moderate amount of capital at low cost for temporary investment in some lines of enterprise on a self-sustaining basis. Such participation of public credit in private enterprise is a compromise with the principles of private initiative upon which our capitalistic system has been based, but it is the smallest part of the price that must be paid for recovery under present conditions.

The more important part is the reconciliation of the public and the consequent readjustment of business to a restricted scale of consumption and a lower public and private standard of living required to stimulate saving, renew the accumulation of private capital, and lower the cost of long-term credit necessary for revival of private enterprise.

Published weekly by the McGraw-Hill Publishing Company, Inc. 330 West 42nd St., New York City. Tel. MEdallion 3-0700. Price 20¢. Subscription: $7.50 a year, U. S. A. and possessions. Foreign $10.00 or £2.10s Cable code, Mcgrawhill

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